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THE INDIAN CITIZEN SERIES.

EDITED BY

PROF. PANCHANANDAS MUKHOPADHYAYA,

M.A., F.R.E.S. (Lond.)

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Calcutta University.*

Our object is to issue a cheap series of small handy volumes containing lucidly written, useful and up-to-date information gathered from the most authoritative sources on Indian economics, administration, currency, public finance etc. The series is meant for our educated countrymen—specially our young men at the universities—who, for want of easy access to materials for study which are either rare or scattered through the numerous blue books, reports and resolutions, have not the opportunity to study the diverse topics of interest.

We have begun the series with a small volume on “**The Co-operative Credit Movement in India,**” because we are convinced that this movement is perhaps the most beneficent of all that have been inaugurated by the Government of India for the betterment of the condition of our indebted agriculturists. The next volume in this series will be on—“**Outlines of the Indian Constitution.**”

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INDIAN CITIZEN SERIES No. 1.

THE CO-OPERATIVE CREDIT MOVEMENT IN INDIA.

BEING

**A brief study of its principles, progress and effects, and a practical
guide for Co operators, with model by laws for forming
Co operative Societies and the Resolution of the
Government of India on the Growth of Co
operation in India**

BY

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PREFACE.

This little book grew out of a lecture delivered by me at a meeting held at the Calcutta University Institute on the 17th of August 1910, under the presidency of Mr. Monohar Lal, M.A., (Cantab.) the then Minto Professor of Economics. In it I have made an humble attempt to acquaint the students of our University and the educated public of this country with the principles, progress and effects of the co-operative credit movement which was first introduced in this country just a decade ago. On the 25th of March, 1904—a red letter day in the annals of Indian legislation—the Co-operative Credit Societies Bill was passed into law “to encourage thrift, self-help and co-operation among agriculturists, artisans and persons of limited means” It is one of the greatest and most beneficent measures that have been taken by the Government of India for the betterment of the masses of our countrymen—and the area of its beneficent influence has been considerably widened by the recently passed Co-operative Societies Act of 1912.

The seeds of economic co-operation sown ten years ago on the Indian soil have put forth a bright young plant full of health and vitality : it is for our educated countrymen—no less than for the unemployed young men of our villages—to nourish it and to reap the fruits of co-operation in its various phases of credit, production, distribution etc. It is my earnest wish that they should root out the weeds of

suspicion—where there are any—and pour all their energies at its root, only that in time this young plant may develop into a full-grown tree rooted firm and deep in the soil giving the shelter of its protection to the teeming millions of our poor debt-ridden villagers.

To help the organisers of co-operative societies of various kinds I have given in three appendices some of the model by-laws issued from, and kindly supplied to me by, the office of the Registrar of Co-operative Societies in Bengal. When this book was about to come out from the press, the Government of India issued on the 17th of June last a Resolution on the Growth of Co-operation in India which I considered to be so highly important that I could not help publishing it *in extenso* for the benefit of my educated countrymen.

Before I conclude I desire to acknowledge gratefully the constant help and invaluable advice which have been ungrudgingly given me by Professor Satis Chandra Roy whose silent work at the University and whole-hearted zeal in the cause of the true “advancement of learning” have been an unfailing source of inspiration to me.

PANCHANANDAS MUKHOPADHYAYA.

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Calcutta, July 1st 1914. }

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THE CO-OPERATIVE CREDIT MOVEMENT IN INDIA.

CHAPTER I.

INTRODUCTORY.

There are two principal kinds of association of individuals in business, *viz.*, (1) partnership and (2) corporation. In a partnership the association is generally among a few persons well known to each other who take an active part in the business which they manage. In a corporation the association is generally among a very large number of persons who do not know each other and do not help the business with their brains or physical energy, but with their funds. In the former the partners, being the direct and active agents, are jointly and severally responsible not only for the management but also for the debts of the business; that is, if the business fails, the liabilities may amount to any sum and the creditor is entitled to realise his full dues from any one out of the many partners. In other words, the liability of the partners is unlimited, for it depends on the extent of the loss and so long as one single partner is solvent and the whole amount of the liabilities can be recovered from him, the creditor is safe.

Two kinds of associations of individuals in business.

(1) Partnership with unlimited liability.

This sort of association was naturally a great hindrance to the success or progress of joint business, for no partner would like to be held personally responsible for risks or for loss. The growth of Corporations or Joint-stock Companies was the natural outcome of this defect in business organisation, and it was remedied by legalising the limited liability of the members of the associations. It was also the natural outcome of the condition of the organisation which prevented a large number of persons unknown to each other and separated by distance, diversity of interests and occupations and

(2) Corporations with Limited Liability. other causes from taking an active part in the affairs of the association. It was obviously unfair to hold a large number of scattered individuals who did not take part in the management responsible for the liabilities of the concern, only because they had contributed individually a small sum of money to the undertaking. For such associations which are called Corporations or Joint-stock Companies or Limited Liability Companies the law provides that each member should be held liable only up to the amount of his individual contribution and no more.

The former illustrates the principle of unlimited liability and the latter that of limited liability. It will be seen that in associations with limited liabilities, the members must have confidence in the management which is usually an outside agency. But in the other case that is, in the case of an unlimited liability associa-

The principles they illustrate.

tion the members must have not only confidence in each other, but must vigilantly watch and check the proceedings of each other.

The co-operative credit society—which is an association or combination of persons who jointly pledge their credit in order to raise sufficient funds for the purpose of lending out among themselves on cheaper terms than each could obtain by pledging his individual credit—is either a partnership with unlimited liability or a corporation with limited liability. The Unlimited Liability Societies are generally confined to rural or agricultural classes, the Limited Liability Societies to urban or industrial communities.

The distinctive features of these societies are two in number—

Their distinctive features. (1) that they are controlled by the members who make use of them, and

(2) that the credit made use of is Personal Credit (based on personal integrity, status, honour etc.) as distinguished from Real Credit (based on land or other immoveable property) or Chattel Credit (based on live stock, crop and other moveables).

The primary idea of societies with unlimited liability is that the members pledge all that they own and jointly and severally undertake the responsibility for the whole of the liability of the society and thus create for themselves a collective credit far in excess of the sum of the individual credits of the members. Thus

it is that these societies disprove the adage that
 “ only the rich can borrow.”

These societies which have come like beneficent
 fairies from the abode of the Gods to the poorer class-
 es whose labour sustains our lives but who are ever
 in imminent risk of being engulfed by the sharks of
 usury—these societies have had their
 Their origin in Ger- home in Germany. The first to ad-
 many. vocate the principle of co-operation in Germany
 was Prof. Huber, but the most active and energetic
 supporter of the movement to carry it out in practice,
 and the first to start a society was Franz Hermann
 Schulze Delitzsch (1808-83.) The popular banks of
 Germany which owe their initiative to his indefatigable
 efforts commenced operations in the years 1858-59.

The Schulze-Delitzsch banks are meant for all
 classes of small producers, but they
 Schulze-Delitzsch and are better adapted to urban com-
 Raiffeisen Banks. munities. Something of the same kind was originat-
 ed for the rural population by Friedrich Wilhelm
 Raiffeisen (1818-1888). Both reformers seem to
 have devised their respective foundations indepen-
 dently of each other. To Schulze, as to his fellow-
 laborer, Raiffeisen, the idea of co-operation was first
 suggested by the miseries brought upon many of
 their neighbours by that trying dearth and famine
 which swept across Germany during the years imme-
 diately preceding the last Revolution.

As the Raiffeisen banks have a more glorious
 past and a still brighter future than
 Nature of Schulze- Schulze-Delitzsch banks, I shall
 Delitzsch Banks.

consider the merits of the former in detail. The institutions founded by Raiffeisen were specially designed for the wants of an agricultural people. Their peculiar features will be best understood by a comparison with the *Vorchussvereine* created about the same time by Schulze-Delitzsch. These, as has already been said, are better adapted to urban communities. In these Schulze-Delitzsch banks loans are made for short periods, and the interest charged is as high as from 8 to 12 p. c. The members are share-holders and receive dividends; the managers are paid. The area over which transactions extend is unlimited. Nothing but the financial security of a loan is considered; no account is taken of the use which the borrower makes of it, or of his personal character.

All these conditions are, however, changed in the *Darlehens kassenvereine*. Raiffeisen intended his banks to serve moral as well as economic ends, by awakening sympathy and fortifying the social ties between inhabitants of the same rural district. Only members of an association can obtain a loan; it must be sought for a definite productive object, and the association is entitled to ascertain that it is *bona-fide* used for that object. It is a cardinal principle of the system that the operations of each association should be restricted to a small area which in Raiffeisen's opinion, ought not to contain more than 1500 souls—that it must not step outside the district within which it is genuinely local and co-operative. It is thus ensured that the members should know each other's character

Nature of Raiffeisen
Bank.

and circumstances—a condition necessary for their financial safety, the mutual liability being unlimited. Not more than 4 or 5 p.c., is charged to the borrowers. No dividends are paid; any profits realised go, not to the members, but to a reserve fund to cover losses; and when they exceed a certain amount, they are applied to purposes of common utility. The loans are for one or two, sometimes for five or even ten years; when there is urgent danger of loss, the loan may be called in within so short a time as four weeks. The managing committees work gratuitously; the only salaried officer is an accountant who receives a small stipend. Thus it will be seen the pillars upon which the unlimited liability society must rest are (1) maximum of responsibility, (2) minimum of risk, (3) maximum of publicity. The structure must be entirely popular, the object of the popular banks being to “democratise” credit. It will also be seen that the main principles of unlimited liability (Raiffeisen) societies are seven in number:—(1) unlimited liability; (2) restriction of operations to a small area; (3) no shares, and consequently no dividends; (4) no payment for services rendered (except that single instance of a paid accountant); (5) repayment of the loan from the profits or savings effected; (6) an indivisible Reserve Fund; and (7) the moral as well as the material benefits of the members. These principles were at first much disputed, but have been vindicated by their success.

Principles of Unlimited Liability (Raiffeisen) Societies.

To give some idea of the proportions which this movement has assumed in the country in which it originated, it may be mentioned that in the year 1905 there were in Germany 10,786 Rural Banks with a total membership of 954,473 and 1020 Urban Banks with a total membership of 586,595. In the valley of the Rhine where the Raiffeisen banks have been longest at work, a transformation has been effected which Mr. H. W. Wolff describes most strikingly in his fascinating work.—“ People’s Banks.” Cultivation has been improved, industry and trade have been developed, the small cultivators are able to purchase their implements at the cheaper wholesale prices, the usurers have been driven from the field, and the peasants have become small capitalists themselves. They prefer to deposit in the society bank rather than even in a Post Office Savings Bank because the former is their own in the management of which they have a say and which keeps the money saved in the district to return to them “ in the fertilizing dew of loans.” Under the bank’s teaching the members have become patterns of promptness and punctuality in their payment, because the banks will tolerate anything but unpunctuality. “ It is a treat ” says Mr. Wolff “ to see these simple peasants bring out their books and explain to you, with evident satisfaction and pride, what all the entries mean and how the system works from an accountant’s point of view.”

These successes in Germany led other European nations to develop such societies in their respective countries. The adoption of the principles of co-operation has made Denmark—a century ago the poorest European country—now the country with the richest population. In France the movement has had to encounter much state interference, but the future is not altogether hopeless. In Ireland Raiffeisen banks have been started in connexion with the co-operative movement and have increased rapidly. Irish butter produced by dairies of the co-operative type has enriched the country. In England herself the movement has made but little headway: it has hitherto been confined to Friendly Societies, Building Societies &c. Agriculture has been too conservative to avail itself of a remedy which has been found effective everywhere it has been tried. However, even in England, the movement is beginning to gain a foothold: in 1906 there were eleven rural banks, and their increase may be expected under the encouragement given by the Small Holdings and Allotments Act of 1907.

But it is in Italy that the movement has become almost as successful as it has been in Germany. Co-operative Credit Societies were introduced into Italy by Signor Luigi Luzzatti, the then Minister of the Italian Treasury, who, in 1864, adopted the method of organisation employed by Schulze Delitzsch for the use of his own country. The leading principles

Their progress in other European countries.

Their remarkable success in Italy due to the efforts of Luzzatti and Wollemborg.

of the Italian Popular Banks, as those of Germany, are co-operation, mutual responsibility and self-help. It would not be out of place here to describe the activities of Dr. Wollemborg who, next to Luzzatti, helped, by his perseverance and enthusiasm, to evolve schemes of co-operation in actual practice.

Dr. Wollemborg's family resided at Loreggia, a village of 2795 inhabitants, nearly all agriculturists, scattered over its whole area. A man of observation and culture, he was struck by the miserable condition of the peasants—their poverty, the frightful and shameless usury to which they were subject and the absenteeism of their landlords. He himself states, regarding usury in his village, that it was common for borrowers to pay one franc per month for every twenty or sixty per cent. per annum, to which were regularly added a dinner every Sunday, gratuitous labour, and other *corvées*. The peasants were at the mercy of the money-lenders and had, moreover, to buy bad goods at ruinously high credit prices. But Dr. Wollemborg added to observation the result of much thought on social matters, and fortunately a knowledge of what had been done abroad, notably by Raiffeisen in Germany; and in 1883, when only 24 years of age, he attempted a similar foundation at Loreggia. It was a task of utmost difficulty: the class of persons to be persuaded, distrust, jealousy, factions of all sorts, were obstacles which had to be surmounted; and to these might be added the isolation of the peasants, their misery and apathy, their ignorance and their distrust

of the landlords, for the peasants were mostly tenants and not proprietors. No situation less promising could well be imagined, but Dr. Wollemborg attacked the situation and conquered it absolutely without external aid. After many discussions and much persuasion he got thirty-two persons to join, among whom were twelve very small peasant proprietors. The example, of course, was little imitated at first: the nascent society had to prove its position, and only then would it be imitated. But those institutions that came into existence gradually struck their roots into the soil: each tree so rooted ultimately cast its own shade and became the parent of others: and Dr. Wollemborg testifies that under his own observation where formerly there used to be rivalry and jealousy there is now fellow-feeling and cordial sympathy, simply because varying and conflicting interests have been consolidated into one. Every one has come to

The results of Dr.
Wollemborg's opera-
tions.

know, by the liability resting upon him, that his neighbour's good coincides with his own, that his neighbour's hurt is also his own. The banks will have none but thoroughly eligible members. The advantages which the bank offers are quite sufficient to induce them to do this. The consequence is that, to become members of the society, drunkards have become sober, ne'er-do-wells steady and well conducted. To apply Dr. Wollemborg's apt illustration, the golden sunshine of thrift and co-operation, wherever it has cast its rays, has "unveiled" and brought to view in plenty unlooked for virtues which had long laid hidden like flowers

shrouded by the night. Thieving has diminished, work has improved, the idle man has become industrious, the spendthrift thrifty, the drunkard has reformed his ways and has become sober, the haunter of taverns has forsaken the inn, the illiterate, though a grand-father, has learnt to read and write. It sounds like a tale from wonder-land, yet it is all sober fact. "I have seen a new world" exclaimed in excusable rapture the Hungarian Deputy Prof. Von Dobransky when he had seen all this with his own eyes,—“a world of brotherhood; it is a world of brotherly love and mutual help, where everyone is the protector and assistor of his neighbour. An isolated man here finds himself transplanted into the bosom of a community whose resources multiply a hundred-fold the productive power of its labour and crown it with success.”

CHAPTER II.

RURAL INDEBTEDNESS IN INDIA.

States. And what is the general condition of the common agriculturist in India ?—well—

Bowed by the weight of centuries, he leans
Upon his hoe, and gazes on the ground,
The emptiness of Ages in his face,
And on his back the burden of the world !

The one universal truth in regard to agriculturists all over the world is that they must Agricultural credit necessary but difficult to obtain borrow. Another fact that is equally true of almost every country in the world is that it has been always difficult to obtain agricultural credit, because the individual credit in the case of the agriculturists is small and the whole of the banking credit has been confined to commerce and industries. At the same time agriculturists as a class cannot avoid borrowing. But unfortunately they have never been able to obtain cheap and easy loans, principally because the credit they could offer was small. It is also unfortunate that while commercial credit can be obtained easily and cheaply on scraps of paper, agricultural credit, although it can offer tangible or real security—such as live stock, land, or future or standing crops—has invariably been far dearer than commercial credit. The reasons appear to be as follow

Why it is difficult to obtain agricultural credit (1) the ignorance of the agriculturists ; (2) their distance from the towns where banks are situated ; (3) the reluctance of the banks to extend small transactions to villages among an ignorant people ; and (4) the want of sufficient knowledge regarding the substance or integrity of the borrower. For these reasons it has always been

necessary in India—where agricultural indebtedness has for a long time been a growing evil—that the agriculturists should have some form of cheap and facile credit—not so facile, however, as to lead to extravagance and abuse—adequately surrounded with proper safeguards.

This subject of rural indebtedness in India is one of the most chronic and difficult problems which the Government of India have been called upon to solve. The Famine Commission of 1880 drew attention to this question in the following words—"We learn from evidence collected from all parts of India that about one third of the land-owning class are deeply and inextricably in debt and that at least an equal portion are in debt, though not beyond the power of recovering themselves." We find a gloomier picture of the indebtedness of the agriculturists in the report of the Famine Commission of 1901—"In his evidence before us the Chief Secretary of the Bombay Government said that 28 per cent. of the land in Broach had passed into the possession of the money-lending classes; and from a report of the Collector of Ahmedabad, it appears that in his district, expropriation of the old owners has also made considerable way. Taking all these statements into account, and comparing them with the evidence we have recorded, we think it probable that at least one fourth of the cultivators in the Bombay Presidency have lost possession of their lands, that less than a fifth are free from debt, and that the remainder are indebted to a greater or less extent."

Rural indebtedness
in India: its nature
and extent.

According to that most competent observer Mr. William Crooke, from 56 to 78 p. c. of our cultivators are in debt. Sir Theodore Morison thinks that the average is about two-thirds of the whole body of cultivators who generally borrow from the village money-lender at exorbitant rates of interest. From a return furnished at the First All-India Registrar's Conference held at Simla in 1906 we find that the rates of interest charged by the village money-lender on agricultural loans to ordinary cultivators are,—

Views of Crooke and Morison.

The various rates charged in different provinces.

Provinces.			Rates.	
Madras	...	...	12 to 15	per cent.
Mysore	...	...	12	„
Bombay	...	...	12 to 15	„
Central Provinces	...	...	18 to 25	„
Bengal	...	...	18 to 25	„
Eastern Bengal	...	...	18 to 24	„
Assam	...	...	37½	„
Punjab	...	...	24	„
Oudh and Meerut Divi-				
sions of the U. P.	...	...	12 to 18	„
Other Divisions of the				
U. P.	...	...	37½	„

According to Mr. Wolff “there are oppressive debts for which raiyats are charged from 25 to 75 and sometimes 100 per cent. and even more—one Registrar instances a case of 1340 per cent.”

A special difficulty arises from the fact that the agriculturists want loans for other purposes than agriculture: for these loans they have to fall back upon the money-lender.

The chronic indebtedness of raiyats to the mahajan.

The result is that the common cultivator lives in debt year in, year out and is too often ruined by the *mahajan* (the village money-lender).

The mahajan and the cultivator.

In most cases the cultivator is over head and ears in debt to him and can hardly get out of his clutches. At harvest, he is compelled in a great many cases to sell his produce to the *mahajan* at the *mahajan's* rate and is cheated only too often in the weighment as well as in the rate. The bulk of the money he earns goes to pay the rent and the too heavy interest on his former loans. Between harvests the poor man has to borrow again for the necessities of life, and this hopeless cycle of heavy loans and meagre repayments plunges him deeper and deeper in debt.

Nor is the case of the poor artisan in the villages any the better. The weaver, the boat-builder, the blacksmith, are all in the same state of chronic indebtedness. For the purchase of raw materials the

The similar indebtedness of rural artisans.

artisan has to borrow, and so pressing is the demand of the *mahajans* that he is compelled to sell off his manufactured produce at once at what price he can get, too often to the *mahajan* himself. He has to borrow for his food and his clothing, for the payment of rent, for every necessity and luxury of life. He has to borrow his capital and he borrows it at an enormous rate —

and too often he cannot get sufficient capital for his needs. Sir Daniel Hamilton expressed these circumstances very tersely when he said that one must buy one's finance cheap and sell one's produce dear to make one's industry profitable, but the Indian artisan and cultivator buy their finance dear and sell their produce cheap, and the consequence is that they are imposed on at both ends, and live in perennial poverty with scarcely any hope of bettering their position.

The reason for this deplorable state of affairs is to be found in the villager's want of thrift. Want of training as to how to save and put by, hereditary instincts and customs of extravagance at wedding, and other ceremonies, and above all, the want of a safe place where to keep the savings—all these contribute to the absence of thrift among the Indian rural folk. The result is that the majority of our villagers are absolutely dependent on the village *mahajan* or *sowkar*—as absolutely, in fact as they are on the rainfall or on the sunshine. The *mahajan* supplies the capital which maintains the the cultivator and his family while the crops are maturing, and he furnishes the means to meet exceptional emergencies, such as the loss of stock or the celebration of marriage. But there are certain defects in the methods of money-lending by the *mahajan* viz,—

The cause of this indebtedness.

Dependence on the *Mahajans*

Defects in the *Mahajan's* methods of money lending

- (1) doing business with an insufficient amount of capital;

- (2) a desire to defraud the innocent borrower or to possess his land ,
- (3) reluctance to receive repayment in small instalments ; and
- (4) the tendency to grant loans for unproductive purposes, because the *mahajan* is anxious to promote his own selfish interests by the ruin of his client.

All these defects could be remedied by means of co-operative credit societies. They supply sufficient capital for the needy members ; they take money in small instalments, as they keep regular accounts of their transactions with their borrowers ; they have no fraudulent desire to ruin one of their own members ; and, above all, the members who manage these societies acquire a training in business methods and organisation which fit them for local self-government. But various stages had to be passed before these societies were introduced into India. We now proceed to summarise them.

CHAPTER III.

PRELIMINARY EXPERIMENTS.

It was in 1882, on the initiative of Sir William Wedderburn who was then District Judge of Poona, that the Government of India proposed to the Government of Bombay the experimental establishment

Sir William Wedderburn's Scheme for an "Agricultural Bank" at Poona

of an Agricultural Bank in the Purandhar *Taluqa* in the district of Poona for providing capital to agricultural classes on reasonable terms. The principle of operation of the proposed bank was to borrow money at moderate interest from capitalists, whether Indian or European, who were willing to lend, and to lend it to ryots at a higher rate, but at one considerably lower than that commonly exacted by the *sowcar*. The security was the ryot's industry and honesty, attested by the fact that he had till then been able to live while paying as much as 24 per cent on his borrowed capital and had scrupulously paid his debts whenever it was possible for him to do so.

The Government of India were prepared to clear the way for this experimental bank —(1) by liquidating the debts of the agriculturists within the selected area, on the understanding that the Government advances would be taken over by the bank when it started business ; (2) by allowing the bank, for a time at least, to recover its loans through the revenue courts ; (3) by assigning in some cases priority to its loans ; and (4) by remitting stamp duty and other dues for a certain period in its favour. The Bank was to be at liberty to make loans for any purposes or to any persons having a transferable interest in land within the *Taluqa*, but it was to engage to limit the rate of interest on all loans to a maximum of 12 per cent and to conform, in respect to other matters, to the rules prescribed by the Government.

The Government of India's practical sympathy with the scheme

The Secretary of State, however, did not approve of these recommendations to assist private enterprise in the manner proposed. He showed that there were very great difficulties in the liquidation of the agriculturists' debts and in advancing fresh loans. He also said that if a private bank were to be assisted by Government machinery in the recovery of its debts, it would virtually be a Government institution, and the Government would incur all the unpopularity and odium of collecting debts which, though private obligations, were treated as public demands. The scheme was, besides, unpractical and financially unsound. It was accordingly dropped.

Although the scheme fell through, yet it must be conceded that Sir William Wedderburn was the first to perceive the magnitude of the Agricultural Indebtedness Problem in India and to devise practical means to solve it. The thoughtcurrent started by him ultimately gave birth to the idea of introducing the Co-operative Credit Movement into India, for, the problem, as originally perceived by him, has been always the same *viz.*, how to supply the Indian ryot with capital without the loan becoming the cause of his ruin.

The same problem presented itself in Madras. In 1892 the Madras Government directed Mr. (afterwards Sir) F. A. Nicholson to furnish a report on the possibility of introducing into the Madras Presidency a system of Agricultural or other Land Banks. He

The Secretary of State's disapproval of the scheme

Sir William Wedderburn—the first to perceive the Agricultural Indebtedness Problem in India.

took immense pains in examining the agricultural credit organisations of Europe and America, and was many years engaged at his work. The result of his

The same problem in Madras.

labours is embodied in his voluminous "Report on Land and Agricultural Banks" which is "a monument of research and a perfect store-house of information" giving a general sketch of the various systems of agricultural credit. The discussion thus initiated by Sir Frederick Nicholson's memorable work was continued by Mr. Dupernex, a civilian in the United Provinces, in his "People's Banks for Northern India."

The Government and Government officials continued to take greater interest in the movement. In the Hindu caste system, in the Moslem sentiment of common brotherhood and "one for all," in the Panchayet system, and particularly in the *Nidhis* of Southern India, they found ample evidence of the people's natural aptitude for co-operation. Something should be said here about these indigenous Mutual Loan Funds.

The people's natural aptitude for co-operation as evidenced by the *Nidhis*.

The *Nidhis* originated in Madras in the fund called the Sadar Court Fund, open to officials only; it seems to have been started about the middle of the last century when Schulze-Delitzsch and Raiffeisen were initiating the co-operative movement in Germany. But the foundation principle *viz.*, that of association for mutual credit is found in the indige-

The foundation principle of these *Nidhis* is found in the "kuttu-chittu" system.

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nous "*kutta-chitta*" system which is universal throughout the presidency. This latter system depends upon (1) association, (2) confidence, and (3) honest dealing. Briefly the system is as follows—a number of men unite to subscribe periodically a small sum each; say fifty men agree to pay one rupee per month for fifty months; each month fifty rupees are subscribed, and lots are drawn for the total sum; the winning lot takes the pool; next month the same fifty subscribe, but in drawing for the pool previous winners are excluded; this continues for the whole fifty months till each subscriber has received Rs. 50. This practice gives men the use in lump of a considerable capital, repayable by small and easy instalments; it is most useful for building houses, starting a shop, buying a pair of cattle or a piece of land.

A further development, however, is next found; the subscribing members, or more usually, the promoters of the fund desired to obtain definite and increased profits for themselves, drawn from the need of the subscribers; instead, therefore, of drawing for the pool, it was put up to auction in lump or in lot; the lowest bidder took the lowest sum below Rs. 50, say 40, obtained only that sum, but gave a chit or promissory note for Rs. 50; the difference, Rs. 10, was divided as profits among the other members.

The first *Nidhi* further developed the system; about 1850 certain employees discovered that they were being ruined by usurers and determined to start a fund to give

A further development of the "*kutta-chitta*" system.

The first *Nidhi*—a Terminating Society.

persons of fixed income a chance of borrowing at equitable rates. The first fund was a "Terminating" Society with a seven years' period; each subscriber agreed to pay for 84 months, when the fund would be wound up and shares repaid at Rs. 102½ per 84 received. From the collection loans were granted to members at 6¼ per cent interest with penalties for delay; the loans repayable by the monthly subscriptions, were usually on mortgage and the order of granting them was determined by lot.

The next step was to make the societies "permanent"; that is, fresh series of shares were periodically and frequently issued, and it was these only, and not the society, which were wound up as each series matured so that subscribers were continually coming in and going out. The essence of these societies is mutuality; it is a group of men united to help one another by a common contribution of funds which are to be lent out to members only for their sole benefit; all profits derived from the transactions are to return to members, so that all benefit: the non-borrowing members by the receipt of profits, the borrowing members by the use of the loaned capital and by a portion of the profits which they have contributed to the society.

These *Nidhis* find their clients among a more educated and advanced class than the rural agriculturists, to whose needs their constitution is not well adapted. But the fact that, notwithstanding

The next step was to make the societies "permanent."

Their essential principles.

Their checkered history suggests possibility of introducing co-operative credit societies.

numerous failures, and much discredit attendant upon a period of speculation they attained a considerable degree of success (since in 1903 they included some 36,000 members with a paid up capital of 75 lakhs), suggested to many high officials the possibility of establishing true co-operative credit societies among the Indian people.

Before, however, any legislation was undertaken by the Government for introducing co-operative credit societies into India, Sir Anthony (now Lord) Macdonnell did the pioneering work by establishing in 1901 two hundred co-operative credit societies in the United Provinces. In the same year the Government of India, impressed with the importance and the future possibilities of the co-operative movement appointed an influential committee to consider the question of the establishment of agricultural banks in India.

This committee consisted of Sir Edward Law as President, Sir Frederick Nicholson, Sir Bamfylde Fuller, Mr. J. Wilson, Mr. Reginald Murray and Mr. H. Dupernex. The Committee assembled at Simla on June 1st 1901 and dissolved on July 10th after holding altogether 16 meetings. The Committee confined their attention to banking on the basis of co-operative credit, because the "agricultural banks" which had been so successful in improving the condition of the poorer classes in European countries rested upon co-operative credit. In concluding that a system

of co-operative credit was capable of affording great benefits to the agricultural community of this country the Committee had had the general support of the opinions expressed in the reports received from the various Local Governments.

They accordingly accepted the establishment of Co-operative Credit Societies as the object in view, and considered the lines on which such societies should be worked, the privileges which should be accorded

The Committee embodied their suggestions in a draft bill. to them and the extent to which it might be advisable that they should be aided by Government funds and subjected to Government control. They also considered in their luminous report what practical form or forms a society constituted on these principles should assume and drew up two model schemes of management for two classes of societies which they contemplated. Finally they discussed the extent to which legislation was required to secure to such societies as might be started the privileges which they recommended for them and to provide for their due working and supervision, They embodied the result of their deliberations in the form of a draft bill.

CHAPTER IV.

THE CO-OPERATIVE CREDIT SOCIETIES ACT OF 1904.

The draft bill drawn up by the Committee presided over by Sir Edward Law was referred to the Local Govern-
The object of the Co-operative Credit Societies Bill.

ments for criticism, and it was upon a consideration of the replies that the Government of India took action by introducing—on October 23rd 1903—the Co-operative Credit Societies Bill. Sir Denzil Ibbetson defined the precise object of these societies to be “the encouragement of individual thrift, and of mutual co-operation among the members, with a view to the utilisation of their combined credit, by the aid of their intimate knowledge of one another’s needs and capacities, and of the pressure of local public opinion.”

“The main object of our endeavours,” said Sir Denzil in his introductory speech, “is to assist agricultural credit, which presents a far more important and more difficult problem than does industrial credit. But we recognize that artisans, employes on small pay, and other persons of small means residing in towns, may very properly be admitted to the benefits of our legislation. We therefore provide for two classes of societies—*rural*, which are composed of agriculturists (a term which is not intended to include the wealthy rent-receiver), and *urban*, which consist of artisans or other persons of limited means. * * * In the case of both classes we provide that the members must be small men, for we are not legislating for capitalists; that they must be residents of the same neighbourhood, else the knowledge of one another which is to guide them in their operations will be wanting; that new members shall be admitted by

Its nature and scope defined by Sir Denzil Ibbetson.

Urban and Rural Societies.

election only, thus securing that mutual confidence which is the only possible foundation of co-operation ; that a man must be a member before he can borrow from the Society, and must in that capacity have contributed to the funds of the Society, since our basis is mutual co-operation ; that money shall not be lent on mortgage so that the capital may be liquid, and capable of ready realisation ; that the interest in a Society which may be held by a single member is to be limited, in order to prevent an individual from obtaining control ; and that shares can be transferred subject only to certain restrictions which are intended to prevent speculation. We provide for a simple form of registration ; for compulsory dissolution, subject to appeal to the Local Government, in order to meet the case of fraud, or of bogus co-operative societies which may have obtained the benefits of the Act while not pursuing its objects ; and for liquidation under a simple procedure, and subject to appeal to the Civil Courts.

“ In the case of rural Societies we further insist
 Rural Societies. upon unlimited liability, as best suited to the agricultural classes to whom they are confined and most consonant with the mutual confidence which is to form their basis ; we lay down that no profit is to be directly divided among the members, since their object is not to make money but to assist one another, and any surplus that may accrue should either be carried to a reserve fund, or be applied to reducing the rate of interest upon loans : and we forbid the society to borrow money

without sanction, for it would often be worth the while of a money-lender to risk his money in order to get a successful society into his power, and so to rid himself of a rival. We prohibit pawn-broking, since the basis of the operation should be personal and not material security; but we allow agricultural produce to be received as security or in payment, and to be converted into money at any time by the society, which will generally be in a position to get a better price for it than an indebted cultivator could obtain.

“In the case of urban Societies we allow of Urban Societies. limited liability and the distribution of profits, subject to the creation of a sufficient reserve fund and we allow them to lend money to a rural society which is situated in the same district, and with the circumstances of which they have therefore the opportunity of being acquainted.

“Having thus provided for the constitution of Privileges enjoyed by these Societies. our societies, and regulated their operations, we proceed to confer upon them certain privileges. We exempt the shares or other interests of members in the capital of a society from attachment for their private debts, thus encouraging thrift, and giving stability to the operations of the society; we relieve societies from the necessities for letters of administration or a succession certificate; we give them a lien upon certain forms of property when created or acquired by means of a loan from them, until the loan is repaid; and we make an entry in the books of a society

prima facie evidence in a suit to recover money due to it. We take powers for the Governor-General in Council to exempt societies and their operations from income-tax, stamp duties and registration fees; and it is our intention to act upon those powers, at any rate, in the first instance.

“ Finally, we provide for compulsory inspection and audit by a Government officer, in order to provide against mismanagement and fraud, to give the members and the public confidence in the societies; and to justify the privileges which we confer upon them, we make Government advances recoverable as arrears of land-revenue. We confer a wide rule-making power upon local governments while indicating certain heads under which it will probably be advisable to exercise it; and we declare that the provisions of the Indian Companies' Act shall not apply to societies registered under the new law.”

On the 25th of March, 1904—a red-letter day in the annals of Indian legislation—the Co-operative Credit Societies Bill was passed “to encourage thrift self-help and co-operation among agriculturists, artisans and persons of limited means.” By this Act Local Governments were empowered to appoint Registrars of co-operative credit societies, whose duty it would be to scrutinise applications for registration under the Act. Subject to the provision that any association of not less than ten persons might be registered by special order of a Local Government, the Act laid down that a society should consist of

The provisions of
the Co-operative Credit
Societies Act of
1904.

persons residing in the same town or village or the same group of villages or, subject to the sanction of the Registrar, of members of the same tribe, class or caste. Societies were classed as "rural" or "urban," and it was laid down that four-fifths of the members must be, in the first case, agriculturists, and in the second, non-agriculturists. In the case of rural societies the liability of the members was to be unlimited, unless a departure from this rule were specially sanctioned by the Local Government; in the case of urban societies, liability might be either limited or unlimited, as might be provided by bye-laws or rules made under the Act. Profits, in the case of a rural society, were, in the first instance, to be carried to a reserve fund, or applied to the reduction of the rate of interest, and a bonus might be distributed only when requirements in these directions had been fully met. Urban societies were also to carry at least a quarter of the annual profits to a reserve fund; loans were to be made only to members, or, subject to the consent of the Registrar, to a rural society. Limitations were placed on the interest in a society that might be held by a single member, and on the transfer of shares. Privileges included the exemption of a member's shares or other interests in the capital of a society from attachment for private debts, the grant to societies of a measure of priority over ordinary creditors in enforcing claims on crops, cattle &c., and the provision for exemption, at the discretion of the Government of India, from income tax, stamp duties

and registration fees. Provision was made for compulsory inspection and audit by the Registrar, for compulsory dissolution subject to appeal to the Local Government, and for liquidation under a simple procedure, finally, wide rule-making powers were conferred upon Local Governments.

The policy of the Government underlying the above provisions had been to allow the utmost freedom to organisers in each case to start their society on such lines as appeared to them suitable, provided that the rule framed did not contravene the Act in any essential matter.

Many were the hopes and fears of the members of the Imperial Legislative Council at the time when the Bill was introduced. "Our co-operative credit society is but a frail barque launched upon a treacherous ocean," said the Hon'ble Mr. (now Sir Harvey) Adamson, "but if it can escape from being wrecked by the opposition of the money-lender, if it can avoid being stranded on the shoals of mutual distrust among its members, if it can carry safely to port a portion of its cargo of self-help and co-operation, it will some day rank as the most important bill ever passed by the Government for the betterment of the Indian agriculturists." Some doubted that its principles would not be as easily understood and acted upon as it has been done by European agriculturists. But this doubt would appear as groundless when we read Sir Frederick Nicholson's description

The policy underlying this Act.

Hopes and fears of legislators as to the success of these societies among our ignorant agriculturists.

of the condition of the European masses among whom these societies were originated.

Says Sir Frederick in his "Report on Land and Agricultural Banks"—"the masses of French, German and Italian peasants were, and to a great extent still are, ignorant, suspicious, conservative, isolated and poor, holding land in small and diffused patches, exploited by usurers, incapable of associated effort, unable to comprehend and unwilling to adopt new methods, however useful, new improvements, however obvious. The description of the peasantry of the Rhine provinces in Germany, of the interior of France and of Italy, as given by their own as well as by foreign observers, shows that, as regards rural banking, the prospects of the masses in the countries named were little, if at all, better than those in the Madras Presidency of the present day."

Nicholson's evidence as regards the prospects of the Indian masses.

CHAPTER V.

PROGRESS OF THE CO-OPERATIVE CREDIT MOVEMENT IN INDIA.

The Co-operative Credit Movement initiated by Lord Curzon's epoch-making measure of 1904 has made remarkable progress in India during the last few years : so rapid has been the progress that Sir Robert Carlyle apprehended that the chief danger

Is the progress of the co-operative credit movement in India too rapid?

to the co-operative movement was that "we might be tempted to go too fast and outgrow our strength." He pointed out that one good society did more good for the co-operative cause than twelve indifferent ones, as one society well run on sound co-operative lines did good not only to its own members, but also outside throughout the neighbourhood in which it was working. But according to Sir Edward Maclagan "the progress made has been of a healthy and definite character"; and Mr. Fremantle thinks that "this rate of increase is likely to be maintained for some time, since the institution of new centres of organisation and control is rapidly spreading the knowledge of the system over wider and wider areas and facilitating the formation of new co-operative societies",—this rate of increase ought to be vigorously maintained, for, in spite of the most gratifying progress of credit co-operation in India, it cannot be said as yet to have done more than touch the fringe of the problem it is intended to solve. Speaking only for the Bengal Presidency, there are in it no less than 119,851 towns and villages of which 119,608 are merely village units with populations ranging from below 500 to 5000. The chief occupation of the people in them is agriculture, and every one of them, it may be safely assumed, will be the better for a Credit Society in it. But at present we have about a thousand societies in the whole presidency serving presumably an equal number of villages. This shows what a vast field still remains to be covered in the direction of credit co-operation alone.

The satisfactory features of the general development of the co-operative movement in India have been that only a small proportion of the capital of the societies has been advanced by the state, that the purposes to which loans have been applied have been almost entirely productive, and that loans, generally speaking, have been punctually repaid. The rates of interest charged vary, but are considerably lower than those charged by the local money-lenders; it is estimated that, at a low computation the agriculturists of India are saved £100,000 in interest charges for every £1,00,000 lent out by co-operative societies.

The societies registered under the Act of 1904 were classed as "Central," "Urban" and "Rural" the first class including those societies that lent to other societies only.

The progress of the co-operative credit movement in India will be evident from the following figures (for detailed statistics see Appendices A and B).:—

			1905-6.	1911-12.
Number of societies at end of the year.				
Central	...	...	9	120
Urban	...	...	37	495
Rural	...	...	237	7,562
Total			283	8,117

Number of members	...	28,629	403,318
Working capital at end of		£	£
year	...	31,518	2,238,277
Expenditure during the		£	£
year	...	32,084	1,643,928

“In this progress,” said Sir Robert Carlyle in welcoming the Registrars to the third Simla Conference in 1908, “every province of importance had shared, but each province had some special feature to show, and the movement was not proceeding on identical lines in every part of India. In the United Provinces a powerful union had proved itself capable of attracting capital and supervising the work of its component societies. In Bengal, perhaps more than anywhere else, strenuous efforts had been made, and with a large measure of success, to teach perhaps the humblest and smallest collections of humanity that had formed themselves into co-operative societies in any part of the world the true principles of co-operation and the proper methods of management. In the Punjab great success had been achieved in attracting the confidence and savings of the genuine agriculturist. In Madras the confidence of non-members had been shown by their readiness to make deposits on business terms, and in many districts the influence of the societies had compelled the money-lender to reduce his rate of interest ”

Some special provincial features.

Three special Indian institutions deserve some notice here *viz.* the Clerks' Society, the Village Grain Bank or *Dharmagola* and the Weavers' Society.

The Clerks' Society is generally on a limited liability basis. All clerks in an office where ⁽¹⁾ a co-operative credit society has been formed are eligible for entry into the society after due election, which was necessary under the Act of 1904. Loans are not generally granted by clerk's societies without a previous enquiry into the purpose for which they are required. These clerks' societies have not proved very successful in the United Provinces where defaults are very common. In Behar and Orissa they have about a dozen of such societies some of which are very successful. It is here in Bengal, however, that the clerks' societies have been very successful: the standard of punctuality in repayment is better with them than with ordinary societies, members are confined to one office and the collector does not, as a rule, interfere with the management. There are also many successful societies among the employees of mercantile firms: the heads of these firms do not attempt to scrutinise the books of the societies which are both for borrowing and for saving.

At the third Simla conference of Registrars in 1908 the late Mr. Buchan stated ⁽²⁾ that Grain Banks would be quite successful in Bengal, so long as the membership was restricted. The Hon'ble Mr. Gourlay, however, ex-

Three special Indian institutions.

(1)
The Clerk's Society.

(2)
The Co-operative Grain Bank or *Dharmagola*.

plained that experience in Bengal was practically confined to the Sonthal Pergunnahs where some years ago in a time of famine the Deputy Commissioner had purchased a large quantity of grain for distribution on loan to the tenants of the *khas mahal* and wards' estates under his control. The interest which was taken in grain had been added to the principal and thus in the course of a few years very large stocks had accumulated. Difficulties of management ensued, and the Deputy Commissioner applied to the Registrar for assistance. The Registrar found that the most satisfactory plan to adopt was to make all the borrowers in a single village jointly responsible for loans of that village. No loans were made to individuals except on these terms, and in this way groups of borrowers were created. The next step was to encourage these groups whenever they contained ten or more members to form themselves into co-operative credit societies each with its own *gola*. The system has proved to be of great convenience and its further expansion is desirable and is expected.

The number of co-operative credit societies for weavers is on the increase in many provinces—notably in the Bombay Presidency where there are many such flourishing societies of which one—the Dharwar Weavers' Society established in 1908 is typical and representative. We cannot help giving here extracts from an interesting article by Mr. K. B. Bhadrapur, published in the “Advocate of India.”—

The ⁽³⁾ Weavers' Co-operative Society

“The origin of this Society, though humble is interesting. It came about thus. An account of the Dharwar Weavers' Union—its origin. A small band of weavers with silk bundles in their hands, were one morning seen, in the Southern Maratha Co-operative Credit Society's office, where Mr. Herlekar—a leading co-operator in the district—happened to meet them and to ask them where the silk was purchased. As expected the reply was “from a *Maricari's*” and they incidentally told him that it could be had much cheaper in Bombay if bought wholesale. Mr. Herlekar let them know that there was no special difficulty in ordering yarn and silk direct from Bombay, if they could only combine and exhorted them to form a weavers' co-operative union. Assenting to an experiment, the Union was very shortly ushered into existence. This small band of weavers formed the nucleus of the Society which is of unlimited liability, Its membership and capital. *i. e.* each member is jointly and severally responsible for all the liabilities incurred in its behalf. The total membership of the Society now stands at a little over hundred and its capital is Rs. 16,563 being made up as follows :—

Deposits	...	1,687
Share capital	...	7,162
Loan (Government)	...	1,486
Loan (Private)	...	2,000
Loan due to Agents	...	3,260
Reserve Fund	...	978
Total	...	16,563

“The share capital consists of shares of the value of rupee one each. The Government advanced by way of encouragement, a loan of Rs. 2,000 free of interest, for three years, which is now being repaid by annual instalments. The annual turnover of capital is about Rs. 30,000.”

“The Society buys wholesale raw materials such as silk, yarn and indigo dye, required for the weaving industry and retails it to members at a reasonable rate of profit, usually three pies on a rupee either for cash or on credit. A rate of interest varying from 9 to 12 per cent is levied on cash advances, which are made to meet the miscellaneous needs of the weaving class and on the price of the yarn sold on credit. Cash loans are usually short time loans.”

“There are some features of the Society which deserve notice. It advances money on finished products deposited with it, to the extent of three quarters of their value as determined by the Committee. The owner of an article deposited is permitted to take it to the market every week and offer it for sale. He may repeat this process several times, before he finally disposes of it. This system enables the weaver to sell his finished product to the best advantage and to tide over slack seasons.”

“The Society purchases wholesale every kind of raw material required for the weaving industry and not yarn, silk and indigo only. Prior to this society's existence all these things were bought from *sowkars* and *Marwaris* who charged a clear profit of one anna

on every rupee. The rate of interest levied by them varied from 18 to 24 per cent. Further the weavers were at their mercy and had to sell their cloth to the *soukar*, who advanced the yarn at any rate which he might fix. All this *soukar*—*Maricari* tyranny has now disappeared and the weaving community is once more breathing the free air."

"The Society receives deposits at Rs. 6-4-0 per cent interest and it borrows special additional loans at 7 per cent. The rate of interest charged on loans to members, is from 9 to 12 per cent. It is thus clear that the Society makes a fair profit; besides it sells raw material at a profit of three pies on every rupee. What becomes of all this profit earned by the Society from year to year? One-fourth of it is carried to the Reserve Fund; a part of it is utilized in paying dividend to shareholders. The remaining is spent in giving bonus to members, in proportion to their purchases of yarn. A brief record of last year's (*i.e.*, 1912-13) statistics in this connection, may help the reader to form an idea of the extent of the business done by the Society. Rs. 736 were distributed as bonus among purchasers at the rate of 4½ per cent. A dividend of 9 per cent was declared on shares and the total amount spent on this head amounted to Rs. 435. The total weight of the turnover of yarn and silk during the same year were lbs 3,680 and 1,787 respectively."

"What are the moral effects of the Society?"

Its moral effects These are many and more valuable than all the economic gain being reaped by the wea-

ving class. A feeling of amity and fellow feeling characterize the dealings of members with each other. Every one addresses everyone else as "Anna," a term of endearment as well as of respect. The Society's office serves not only as a rallying business centre but also as a sort of social club."

Of late co-operative credit is reported to have gained ground among other classes also—brass-workers, ckka-drivers, shoe-makers, fruit-sellers and the like—who apparently organise themselves into very small societies of one calling only.

Co-operative Credit
Societies among other
classes.

CHAPTER VI.

EFFECTS OF THE CO-OPERATIVE CREDIT MOVEMENT IN INDIA.

The co-operative credit societies in India are now numbered by the thousand; with their aid laborers have become owners; hopeless debt has been banished and the *Mahajan* driven out; agriculture and industry have been developed, and the villagers in the poorest tracts have become prosperous; the illiterate man has turned towards education and the drunkard has been reclaimed; the middleman has been eliminated, the raiyat is getting full value for his produce, and paying his rent with ease: village life has been stimulated by associated action and by the business education of the bank; punctuality, thrift and mutual confidence are being taught; litigation

has decreased and morality has improved ; activity has taken the place of stagnation and routine ; associated action has replaced mutual distrust.

These effects of the co-operative credit movement upon our people may be classified under four heads—moral, educative, social and economic.

THE MORAL EFFECTS.

Its moral effects are evident when we consider that some societies have taken measures to deal with the evils of cigarette-smoking and that many settle village disputes by a reference to the *punchayet* without going up to Courts. In Sir Edward Maclagan's words—"The effects of co-operation on litigation is in some places very marked, and we hear in one district of a decrease during the year of 1,100 civil cases which the judicial authorities ascribe in the main to Co-operative Credit Societies."

THE EDUCATIVE EFFECTS.

In the words of Mr. Wolff "it has already quickened the intelligence of the raiyats and awakened their power of thought, understanding of business and sense of responsibility. They have learnt something and they are showing themselves anxious to learn more. They want to master rudimentary letters, to fit themselves for keeping accounts and checking them." Again, Sir Edward Maclagan says—"We have instances brought to our notice of the effect of co-operation in improving the education.

and morality of the communities which have adopted it, in reducing unnecessary expense and in supplying medical relief." As a matter of fact we find that in a Midnapore village one of the most direct effects of the society has been the institution of a Middle English School to the upkeep of which the society is now contributing four rupees per month from its profits; and that in Khulna one of the effects of these societies has been a growing demand for night and vernacular schools. In some cases these societies have also successfully taken up the question of village sanitation.

THE SOCIAL EFFECTS.

Its social effects are no less remarkable. The Indian co-operative credit societies give loans to members not only for paying off old oppressive debts and for such productive objects as the purchase of fertilisers, seed and livestock, the building of houses, the purchase of land etc., but also for marriages, pilgrimages and funerals. Here in India no distinction is made between productive and non-productive expenditure, the distinction observed being that between necessary and unnecessary expenditure. Loans for marriages, *sradhs* and even pilgrimages to holy places are also therefore allowed; because, if loans for such purposes were refused the members would be compelled to raise money from *mahajans* at the usual exorbitant rates and they would be left without any wholesome check on their expenditure.

In many cases the *punchayets* have cut down the amount applied for to meet such expenses. It is usually the dread of village opinion that compels a villager to spend large sums of money on these social ceremonies. It is the same village opinion which now compels a man to restrict his expenditure on these objects and the good people of the villages where there are societies are no longer anxious to have feasts at the expense of an unfortunate man who has lost his father or who has to marry his son or his daughter, for (on account of unlimited liability) anything that affects the man's solvency might also affect their own pockets. Again, in his Resolution on the working of Co-operative Credit Societies in the United Provinces, during 1911-12, Sir James Meston thus sums up in weighty terms some important aspects of the social results of the Co-operative Movement:—"The movement has undoubtedly had an appreciable effect in creating solidarity of feeling and a neighbourly spirit, and in providing a nucleus of a natural authority to which village disputes can be referred and which may be invoked to justify thrift on occasions where custom demands extravagance. It is in effect calling into existence an articulate public opinion and giving it concrete embodiment in the "*punchayet*." Further, the group system of organisation is leading to co-operation between village and village. The Registrar, with pardonable enthusiasm, looks upon the movement as heralding a new corporate village life and even the birth of a rustic civilisation and culture."

THE ECONOMIC EFFECTS

Its economic effects are very far-reaching indeed, for it has tempted hoarded money out of its concealment and has attracted the funds of the general public. The successful working of these societies has earned the confidence of the villagers who now do not hesitate to deposit their hoarded savings in them. These societies are specially appreciated by widows and old men as convenient places for the custody of their hard-earned savings. We give here some remarkable instances from the very interesting reports on the working of Co-operative Credit Societies in Bengal. In Midnapore the widow of a *mahajan* who did not help the society with any deposits, although several times approached by the members, deposited Rs. 800 on behalf of her minor sons two days after the death of her husband. In another case a man who was not suspected of having any money at all brought Rs. 100 to deposit in his society after there was a theft in the village! In Khulna a palanquin bearer, to the agreeable surprise of all, brought in Rs. 1,200 to deposit in the Khulna Union—a case of hoarded wealth indeed! Enquiries elicited the information that he was known to be a sober and steady man and that the villagers had always suspected that he had some money which he had Silas-like buried underneath the earth.

Mr. Wolff thus summarises the economic effects of the Co-operative Credit Movement in India—"Co-operative Credit has brought money to many a spot

thirsting for it, generally in the right way ; in many cases has it replaced hopeless insolvency by solvency already attained or else in prospect ; there are, at any rate, hundreds, probably thousands, who have, by the aid of this helpful ally, liberated themselves from the usurer's yoke ; there are villages in which the *mahajan* and the *souccar* now find their occupation gone. The institution has accordingly inspired new hope into the minds of the debt-burdened ryots and opened to them a way to higher existence."

Another very important aspect of the economic effects of this movement is thus described by Sir Edward Maclagan—"If we take the question of saving in interest alone, the benefit done has been great, and is increasing. We may fairly assume that the saving on each loan given out by societies during the year to agriculturists has amounted to at least ten per cent, and the result is that at a low computation we save the agriculturists of India from an absolutely unnecessary burden of at least ten lakhs of rupees for every crore of rupees lent out by Co-operative Societies : and the sums so lent out have already begun to be counted in crores."

Thus we see that the Co-operative Credit Society

is the guardian of the village—it

A summary.

is its own bank, its own court, its

own school and its own municipality : it lends money, it settles disputes by arbitration, it offers educational facilities, it effects sanitary improvements—it has grown into a sort of a village democracy : truly has it been said that "one can see in these institutions

the beginnings of the old village communities whose disappearance as a factor in the political organisation of the country every one deplores."

In a similar strain H. E. Lord Carmichael spoke in his opening speech at the fifth Bengal Provincial Co-operative Conference of 1913—"In the administration of Bengal the solution of great problems which most nearly affect the people of the country (whether they concern the water-supply or sanitation or fighting malaria) depends upon local effort, and in this we are handicapped by the want of village institutions. But I hope I am right in foreseeing that in the future these societies will take the place of the old village institutions which once existed in India, and I am sure I am right in thinking that, if they do so, there will be a great change for the better in the administration of the country." So also, the Hon'ble Mr. P. C. Lyon, speaking at the same conference, said—"It is recognised now on all sides that a successful village society means a far step forward in education and local self-government; in fact the resuscitation of village government in a most attractive form."

And in his presidential address at the sixth Bengal Provincial Co-operative Conference of this year he (the Hon. Mr. Lyon) predicted that the Co-operative Credit Societies were destined to form the best and soundest basis for the constituencies of the future. "I look forward to the time," he said, "when the Co-operative Credit Society of each village, bringing the people together for all

Its possible administrative effects

matters connected with the weal of the village, will be linked up with the system of village and circle government and will be utilised as the only efficient electoral unit. Each such unit will vote for the representative who will look after the interests of the village in a larger council composed of an aggregate of unions, and he will, in his turn, help to elect the members of still higher councils. In every stage of such development you will find the Government your firm ally, as it is in this way alone, I believe, that we shall obtain truly popular constituencies, able, by the influence they exercise on public affairs, to contribute valuable assistance towards the good government of Bengal."

CHAPTER VII.

THE CO-OPERATIVE SOCIETIES ACT OF 1912.

Truly has Mr. Wolff said in his "People's Banks" that—"The seed of co-operation has in India fallen upon good ground. The progress made is quite phenomenal, such as has nowhere else been previously known." This is as it should be here in India, for India is the country where co-operation is the panacea for all her social and economic evils. Would it be regarded only as a dream if India were pictured as a vast continent of villages and cities—the villages full of smiling homes surrounded on all sides by scientifically and corporately cultivated

Co-operation can
work wonders in India.

A dream.

fields and gardens, co-operative stores, grain banks, credit societies and building societies, model farms, model dairies and model schools—the cities full of mills and factories working up the raw materials produced in the villages, with well-equipped, up-to-date technological colleges, big commercial houses, extensive dockyards, flourishing markets and a thorough transport service ?

This dream is on its way to realisation, for the very success of the Co-operative Credit Movement paved the way for Co-operative Societies for other purposes, *viz.*—
Its prospective fulfilment. (1) Co-operative Distributive Stores to supply local needs ; (2) Agricultural Co-operative Societies which again fall into three principal classes—(a) Supply, *i.e.*, distributive societies, for providing materials of agriculture ; (b) Productive, such as co-operative dairies ; and (c) Sale, such as grain-selling societies.

Unfortunately, however, the Act of 1904 did not permit the registration of such societies. It was found difficult to fit them into the provisions of an Act which was not intended for them, and it was clear that provision must be made for co-operation not merely to borrow but also to purchase, produce and sell. It was also found that the classification of societies under this Act into Rural and Urban involved needless complications which would be cleared if they were classified into Limited Liability and Unlimited Liability Societies. It was also deemed essential to provide for the union of societies into larger bodies so as to

Need for amending the Act of 1904

secure a large measure of non-official inspection and control and to facilitate the raising of funds.

Accordingly it was found necessary to amend the Act of 1904; indeed the need for amending the Act was felt even as early as 1906 when the first All-India Conference of Registrars was held at Simla; and at every subsequent conference facts and arguments were brought forward to justify the immediate enactment of a new law with wider application. The conference of 1909 drew up a draft amended bill to which Sir Edward Maclagan thus referred in his presidential address at the Fifth Conference of 1911:—
 “The Bill prepared at the last conference has been considered by the Local Governments and after considering the views expressed by them a rough draft Bill has been prepared by the Government of India and submitted to the Secretary of State. The Act has been recast and put into a more suitable form and it has been extended so as to include other forms of Co-operation besides Credit Societies. The distinction between ‘urban’ and ‘rural’ society has been removed and a limited permission to pay dividends to rural societies with share capital and unlimited liability has been allowed. * * * The main feature of the legislation is the inclusion of other forms of co-operation within the scope of the Act and this is likely to affect greatly the operations of the future.”

An amending bill to remove the deficiencies of the Act of 1904

The Co-operative Societies Act of 1912 : the changes introduced by it.

This Bill to amend the law relating to Co-operative Societies was passed early in 1912 and received the assent of the Governor General on the 1st of March, 1912. The first change made by this Act is indicated by the difference between the titles of the two Acts. With the spread of Co-operative Credit Societies, there had arisen in many parts of India the desire to initiate other societies of a co-operative type, having for their aim the production or distribution of commodities and not merely the provision of credit. The new Act accordingly provides for the registration under the Act of any society "which has as its object the promotion of the economic interests of its members in accordance with co-operative principles," or any society "established with the object of facilitating the operation of such a society." The statutory distinction between "rural" and "urban" societies is dropped, the radical differentiation between societies with limited and unlimited liability alone being retained. The principle that agricultural credit societies must generally be constituted on the basis of unlimited liability is retained, but with a view to bringing within the provisions of the Act societies that have grown up and done useful work in some parts of the country, the distribution of profits by "unlimited" societies is allowed in cases where this course is sanctioned by the Local Government. The fourth new feature of importance in the Act of 1912 is that it provides for the formation of societies the members of which

shall be other co-operative societies. The grouping of societies into unions, and their financing by means of Central Banks, is an essential feature in European systems, and action on these lines had already been found feasible in most provinces of India. The other changes introduced by the new Act do not call for special notice.

The passing of this new Act has considerably widened the field of economic co-operation in India ; it has removed the limitation preventing co-operative credit societies doing anything but supply funds to the members, and has allowed the formation of societies with other profitable objects in view. This has resulted in the immediate utilisation of co-operative societies for the dissemination of agricultural improvements. Without going beyond their legitimate function—that of supplying credit—co-operative credit societies had been used and are being used for spreading improvements. They have often been used to spread literature on agricultural improvements, and are one of the most effective agencies in doing so. They have in some cases, as for instance in Eastern Bengal, taken the advice of the Agricultural Department with regard to advancing money for improvements to be made by their members.

These things could be done without any extension of their old powers, but as soon as it became possible for the co-operative credit societies to extend their

functions they began to do so in many cases under the guidance of Agricultural Departments. Here we shall give extracts from the fourth report on the introduction of improvements into Indian Agriculture recently issued by the Agricultural Department of the Government of India. These extracts will show how the passing of the Act of 1912 has rendered it possible for the Agricultural Departments to work hand in hand with the co-operative credit societies for improving Indian agricultural conditions.

One of the first signs of this joint action of co-operative credit societies with the Agricultural Departments was the wish on the part of a number of rural societies to carry a stock of implements and sometimes of seed for sale or hire to their members. This has been done in a number of provinces, and has often proved a very great convenience besides being profitable to the societies themselves.

“The greatest development of miscellaneous agricultural functions has perhaps been reached in the case of some societies in the United Provinces. There the relation between the Agricultural Department and certain societies is very close, and one or two cases may be given as illustration of what is being done and the difficulties which have arisen. In the case of the Gauria Kalan Society, the Society takes the seed

recommended by the Deputy Director, it practically monopolizes the services of an Inspector of the Department, it has a well borne from the Department in its service, while the Deputy Director makes, where necessary, arrangements for marketing the produce of the Society to ensure better prices. This Society now also runs its own agricultural Exhibition, and maintains a depot of implements for sale. The same intimate relations are now being established in other cases. Individual members of these societies already put down and test the value of types of crops recommended and carry out the methods of cultivation taught, but the fullest use, the Director considers, can obviously not be made of them unless as units they will undertake such steps as that of keeping up a supply of the seed given for demonstration. This question of seed is considered to be perhaps the most urgently needed extension of their functions, and it is desired to make them independent and self-contained in the matter of supply of seed to their members. In entering upon it certain practical difficulties have arisen. To carry the arrangements into effect a certain amount of capital is necessary to purchase back seed from the members selected to sow. Storehouses are required in which to store it. If the crop is cotton a small ginning factory is desirable, and some staff must be maintained. In other words, these societies, hitherto entirely credit organisations must enlarge their functions and definitely recognise agricultural improvement as a duty towards the members."

A certain amount of reluctance exists among credit societies to make this extension of their functions, and it is a debatable question as to whether they should be encouraged to do so, or whether special societies or unions should be formed side by side with the credit organisation to undertake these trading functions.

Ought the credit societies to extend their function?

“ As an example of the establishment of parallel co-operative societies financially dependent on the Co-operative Banks but independent in other ways, the development of Agricultural Unions, chiefly for seed supply, in the northern part of the Central Provinces may be referred to. The question here has chiefly been that of seed supply and the close connection with the credit societies is seen by the fact that the “ Seed Supply, Ltd.” Sehora, now has its office at the Central Bank, Sehora, and employs a trained man who supervises the seed farms of its members besides demonstrating new methods and implements, and maintaining a stock of implements, and spare parts for sale to its members.”

Parallel co-operative societies.

In various forms modified to suit local conditions, co-operative organisations for the production and supply of seed will probably be the first results in many rural tracts of the success of credit societies. The details of organisation will vary much, but whether undertaken by the credit societies or by unions of credit societies (as in Burma), or by se-

Societies for the production and supply of seeds.

parated societies altogether, it forms a probable first step in many cases to very large development in these directions.

“ An illustration of such seed-producing societies growing independent of previously existing credit organisations may be given from experience in the cotton tracts of Berar. In this case, they are in the form of Agricultural Unions, which maintain a central seed farm for the production of cotton seed, and provide ginning machinery for ginning the seed of *rosea* cotton from a number of branch farms run by the members. The capital is used in running the central farm, and the supply of the necessary gins; and the seed from which they work on the central farm is obtained annually from the Agricultural Department. The financial result has hitherto been satisfactory, and the extension of such unions will bring about the transfer from the Agricultural Department of the spreading of the improved forms of cotton seed suitable to the district.”

Manure supply societies at Bombay and in the Deccan

“ In no other direction had development gone so far as in co-operation for the production and distribution of seed, but a certain amount of experience has been already gained in the formation of societies for the purchase and distribution of concentrated manures in Bombay, and for dairy purposes in the Central Provinces and the United Provinces. In the case of manure societies, a notable success has been achieved at Kelva Mahim, near Bombay, where in a tract of very intensive culture, with a

large demand for castor cake; in the first year's operations, on the basis of a co-operative capital of Rs. 7,500, a profit of 25 per cent. has been secured and the cake sold below the market rate. It has secured also that the market rate has been much lower than it would have otherwise been. In this case, the co-operators were almost exclusively the gardeners themselves, but the management was in the hands of a keen local man, not however a gardener. A larger manure supply society has recently been promoted in one of the sugarcane tracts in the Deccan, with a capital of Rs. 20,000. It has succeeded in coming out soundly from the first year's trading, though there will be no large actual profit, but it has caused the price of fish-manure (in which it dealt) not to rise as was invariably the case in former years. The result of its experience is to indicate that such a society is best run when the shareholders are Co-operative Credit Societies who can buy for the benefit of their members rather than individual cultivators."

"As regards dairy societies, the experiment at Nagpur, organised by the Central Dairy Societies at Nagpur and Bepares. Provinces Agricultural Department, is a very interesting one, which has now been working 18 months. A capital of Rs 30,000 was laid down by Government, Rs. 20,000 to purchase land and Rs. 10,000 to put up sheds, and the co-operating *Goalas* put their cattle on this land and in these sheds. They pay Rs. 6 for pasturage of a milking cow, and Rs. 3 for a dry cow or young beast

per annum, and purchase other food from the Government, who buy in bulk and hence at a low rate. The cattle are milked before a special staff, retained and paid by the Department, and the milk is sold, at 8 seers per rupee for buffalo's milk and $8\frac{1}{2}$ seers per rupee for cow's milk, to a contractor who retails it at 6 seers per rupee. At present there are 320 animals in the scheme, and it appears to have paid all concerned, while more *Goalas* are gradually coming into the society and bringing their animals."

Another somewhat similar scheme, though one quite independent of Government and of the Agricultural Department, has been worked in the neighbourhood of Benares. and there seems a good deal of scope for encouraging co-operation in the improvement of the dairy conditions in other provinces.

"In the Central Provinces one co-operative cattle-breeding society has been started in the Raipur district, and a second one will be registered very shortly. The former society leased 490 acres of grazing land from Government, and commenced with a herd of forty cows and one bull, purchased for them by the Agricultural Department. The members themselves in their villages had no cows good enough to use as the foundation of a breeding herd. The share capital is Rs. 3,000: the shares are Rs. 100 each. Each member is allowed to have up to six cows on the farm. The cows are branded and remain the member's own property while the bull belongs to the Society."

“ On the whole, enough has been done in these various directions to indicate how in many ways Co-operative Societies may be used or encouraged or established to bring agricultural improvements into use. It must be emphasised, however, that a Co-operative Society is a business concern, and cannot undertake agricultural propaganda for its own sake. Caution should probably even be exercised in recommending them to do anything which will not actually be productive to the society as a society, even where it may be profitable to the members individually, and in these doubtful cases, probably careful consultation with the local Registrar of Co-operative Societies should precede any recommendation or even approval of action by a society which does not lead to profit to itself as a co-operative body.”

It is to be hoped that the Act of 1912 will develop further the Distributive Co-operative Movement as the Act of 1904 has phenomenally developed the Credit Co-operative Movement. The progress of co-operation so far has been one sided *i. e.* merely along the lines of credit and agricultural societies. Distributive Co-operation has not yet taken root in the country. The number of distributive societies or stores (or associations of consumers for the purpose of purchase and sale, among members, of the necessities of life on the profit sharing system) for the whole of India up to now has only been sixty-nine. The real object of a

Co-operative societies ought to be cautious in undertaking agricultural improvements.

Co-operative distributive societies

distributive society is to bridge the gulf between the producer and the consumer, and dispense with the officious middlemen or brokers who appear at every stage of the passage of the article from the producer to the consumer. Societies should be started in villages for the purpose of supplying to agriculturists the requisites for cultivation and production—seeds, seedlings, manure, live-stock and implements—materials necessary for village industry and for the purpose of selling in suitable places the products of such industries. These village distributive societies may be consolidated into a Central Distributive Store or a Wholesale Society which will buy the necessary things in large quantities and therefore at cheaper wholesale rates, and then sell them to the affiliated village stores at a little above cost price.

The Act of 1912 will also give an impetus to the formation in larger numbers of *Dharmagolas* or Co-operative Grain Societies for creating stores of paddy to be lent out to members only for seed grain, maintenance and for repayment of paddy debts at higher interest and for creating a reserve stock for any unforeseen emergencies such as famine and scarcity. It will also help the formation of Agricultural Sale Societies for helping members in the disposal of their crops and the products of agricultural industry carried on by them and for enabling the members by means of joint sale to obtain better value for their crops.

Finally under the provisions of this beneficent Act it will be possible to start a Co-operative Society on the model of the Oxford University Co-operative Society in connexion with our University. The O U C S has been established to show to the students of the University what co operation is, and still more what it may be as an instrument of social reform, to deal in goods produced under fair conditions and if possible co-operatively produced, to show that it is cheaper to pay cash than to buy on credit and to reduce the student's cost of living. The society's prices are about the usual price and any body may shop with them, but only people belonging to the University may be members and among these the profits will be distributed according to their purchases

CHAPTER VIII

SOME OUTSTANDING QUESTIONS

A—Finance and Control

In the course of the progress of the Co-operative Credit Movement several important questions have arisen of these, however, there are two which are of vital importance for the future progress of the movement, *viz*, the best method of providing for the finance and control of co-operative credit societies with unlimited liability.

The capital of an Unlimited Liability Society was, till recent times, and is even now, generally de-

rived from some or all of the following sources :—
 (1) Admission fees, (2) Deposits from members, (3) Loans from non-members like the local *mahajan*, the local zemindar, local philanthropists, or the investing public, (4) Loans from other co-operative credit societies.

It has been found, however, that these sources are not at all sufficient to provide adequately for their useful working. Besides this all-important question of Finance there is the twin problem of proper control of the ever-increasing number of societies in our villages. These two questions were discussed at every sitting of the Simla Conference. At the Fifth Conference of 1911 a sub-committee was appointed to deal with these two questions. We give here a summary of the conclusions reached by that sub-committee.

(i)—*As regards Control.*

(1) If the movement is to be made a success the societies must co-operate with each other for their mutual benefit in the same way as individuals co-operate in societies. The object of such co-operation will be to take common counsel, to discuss questions of common interest, to teach co-operative principles, and so to maintain these principles pure in the affiliated societies that the fact that societies belong to the federation will affix to them a hallmark of sound co-operation. To accomplish this end the societies must submit to an inspection of

then accounts and working by the representative body

(2) This body may without objection be united with a Central Bank provided the shareholders of this bank are the societies themselves. This principle should be followed even where a few individual shareholders are introduced into the Central Bank with the object of securing better management. Where, however, the Central Bank is a joint stock concern, the shareholders of which are individuals, and not societies, or in which the individual shareholders predominate, there should be a union of societies distinct from the Central Bank.

(3) Unions of this kind should be confined to an area not greater than a district, and, where possible, to a local area less than a district. Such unions where not united with a Central Bank have no need for a financial basis. The costs involved should be defrayed by a levy *pro rata* on the affiliated societies. They should be managed by a general meeting consisting of one or more delegates from each affiliated society with an executive committee consisting of about 5 members elected by the delegates. This committee should employ and pay the staff necessary for inspecting the societies and for propagating the principles of co-operation. Ordinarily no society in the local area should be registered by the Registrar unless such registration is recommended by the local union and the union should form one of the main channels through which the Registrar

exercises his supervision and control of societies. Such unions should be encouraged to hold local conferences. The name "Union" should, as far as possible, be confined to such associations, and where they are combined with a Central Bank the association should be known as a Central Banking Union.

(ii)—*As regards Finance.*

(1) Central Banks registered under the Act should be organised as Joint Stock Companies with limited liability. The shareholders should be societies alone and the Central Banks should exist wholly for the benefit of their share-holders and should make loans only to societies which are share-holders. Where, however, it is impossible, owing to the backwardness of the people, to obtain the necessary business management there is no objection in the first instance to admitting a small number of individual share-holders, but loans should not be made to such individuals.

There may, however, be circumstances which prevent the formation of such Central Banks, and in these cases there is no objection to a society dealing direct with a joint stock company willing to finance it. The constitution of such joint stock companies, however, (if formed for the purpose of financing societies) should be carefully scrutinised by the Registrar before registration to insure that the interests of the borrowing societies are safe-guarded.

(2) The Central Banks at present in existence check the security of the societies to which they lend

by one of three methods (1) by a special staff appointed and paid for by the directors of the Central Bank, (2) by accepting the inspection and report of a Union (or where a Union is amalgamated with a Central Bank, the Central Banking Union) of societies who themselves pay and employ a staff for inspection, and (3) by relying on the inspections and reports of the Registrar and his staff. Although the third method may be necessary in the beginning, it should be done away with as soon as possible. Of the other two methods, where the whole or the great majority of share-holders in the Central Bank are societies and the bank deals only with societies, the second, *viz.*, the reliance on the reports of the Unions is preferable. It is better that the inspecting staff should be paid and employed by the Union or Central Banking Union which would collect the cost rateably from the societies than that it should be employed and paid out of the profits of the Central Bank. Where, however, Unions do not exist, the special staff must be paid by the Central Bank.

(4) The great aim of all Central Banks should be to accumulate local capital, and only in the event of such capital not being forthcoming in sufficient quantity should money be borrowed from outside. It is desirable that a Central Bank should have a cash credit account with a joint stock company such as the Bank of Bengal, Allahabad Bank &c. The Central Bank should not reduce the rates of interest on loans to societies below 9 to 12 per cent. in

the first instance even when it is able to borrow money at 6 per cent. to 7 per cent.

*B.—The Proposed All-India Central
Agricultural Bank.*

At the All-India Registrars' Conference of 1908 Mr. Lalubhai Samaldas presented a note on a proposal for a Central Bank dealing with more than one province.

"As it will be very long," says he, "before the existing Co-operative Credit Societies have their own Central Banks, and as it would not be proper to starve the existing societies or prevent others from coming into existence, merely for the want of an agency to finance them, it is advisable to consider any scheme that undertakes to provide them with the requisite capital." He then proceeds to give the details of his scheme. The proposed bank is to be a joint stock company the share capital of which is to be raised in the open market. It is to be authorised to give 4 per cent. debentures, the debenture capital being used only for making advances to co-operative credit societies or their unions and to individual agriculturists. The advances to individual agriculturists are to be made only in canal irrigated areas and in selected areas to assist the agriculturists to liquidate their existing debts. The Bank is to be at liberty to utilise its share capital as well as its fixed

and current account deposit money for ordinary banking purposes.

But the establishment of a bank like this is open to the following objections—(a) it is not sufficiently co-operative, because the bank proposes to deal with individual cultivators and to carry on a general banking business entirely unconnected with Co-operative Credit Societies; (b) the operations of the bank may tend to check the growth of the co-operative credit movement, because the whole of the deposits attracted by the bank as well as the original share capital would be available for direct loans to agriculturists; and (c) the scheme, according to Mr. Wolff, is too bold for the present.

For these reasons this proposal of a ready-made all-India Agricultural Bank does not appear to be a sound one. It is far better that an Imperial Agricultural Banking Union should be built up by gradually federating the Provincial Banking Unions which would come into existence by federating together the District Central Banking Unions. Such an institution, although a distant ideal, will be the natural and useful development of the true and sound principles of co-operation, for it will at once solve the two all-important questions of finance and control—the Central Banking Union supervising and financing the individual Co-operative Credit Societies, the Provincial Banking Unions supervising and financing the Central Banking Unions—and, above them all, the All-India Co-operative Banking Union financing and supervising the various Provincial

Banking Unions. The day on which such as All-India Co-operative Banking Union will be started is indeed distant but none the less it will come for signs are not wanting to show that we are fast moving towards this great ideal.

Provincial Co-operative Banks—though not exactly Banking Unions—have already been established in Bombay, in Madras and in the Central Provinces and Berar and at the last (sixth) Bengal Provincial Co-operative Conference a well thought out scheme for the creation of a Provincial Co-operative Bank was carefully elaborated by the Hon'ble Mr. J. H. Kerr. He pointed out one great obstacle to the further expansion of the movement *viz.*, that, generally speaking, the village societies in the area covered by each Central Bank all wanted to draw their money and to repay their money at the same time and there was consequently a slack season of the year when the Central Banks, which finance the village societies, found it difficult to utilise their capital profitably. The only remedy for that was to give them access to a wider market, and it was one of the advantages of the Provincial Bank that it would provide for that difficulty. The following is a brief outline of the proposed scheme for a Provincial Co-operative Bank for Bengal—

It will consist partly of preference share holders and partly of the Central Banks, who will occupy the position of ordinary share holders. The Provincial Bank will lend only to its ordinary share holders, but the preference share holders will rank above the

ordinary share-holders in the matter of dividends. Half the Bank's shares will be preference shares and half will be ordinary shares. The preference shares will be fully paid up, and the preference share-holders will have the first claim on the profits, after 25 per cent has been set aside for the Reserve Fund in accordance with the Co-operative Societies Act and will be entitled to a dividend upto 6 per cent. Thereafter the ordinary share-holders will be entitled to a dividend upto the same amount, and finally any balance remaining will be devoted to raising the dividend on all shares equally upto a maximum of $7\frac{1}{2}$ per cent. Any surplus will be devoted to the general purposes of the Bank. The Bank will have power to accept deposits and to issue debentures so far as is necessary for the purposes of its work, upto a maximum of ten times its subscribed capital.

But whether the Provincial Co-operative Bank be established or not, the societies might each be allowed to have a Savings Bank attached to each which, according to the Hon'ble Mr. Gokhale, will serve a double purpose. First, the rural classes will have facilities for the deposit of their little savings where practically no facilities exist at present—this would encourage thrift. Secondly, the societies, will have a new source of financial aid placed within their reach on a commercial and safe basis. Indirectly, too, the well-to-do classes, who might not join the societies, would, if they were to deposit their savings with those societies, help them most materially.

C—State Financial Aid to Co-operative Credit Societies

We shall quote here the views of the Hon'ble Mr. P. C. Lyon who was the special officer in connection with the introduction of Agricultural Banks in Bengal. These views were expressed in a letter, dated January 14th, 1902, to the Secretary to the Board of Revenue —

“In the matter of the financial aid to be given by Government to these institutions, I think that a sharp distinction should be drawn between the assistance to be afforded during what may be called the experimental stage and that which should be offered as a permanent addition to the funds of the societies. I am personally doubtful whether Government should hold out any hope that these societies, when established elsewhere than in estates held by Government directly, will be permanently aided from Government funds. Should the present scheme achieve any marked degree of success, it will develop so largely as to place it above the power of Government to aid it materially, and it is obvious that if funds cannot be raised for the work of these societies from private sources, the whole scheme must eventually fail. While therefore, it may be necessary for Government to assist the credit associations, when established in towns or villages, in times of scarcity or distress, I doubt whether any general scheme for their assistance in ordinary times, by financial aid in any form is required. These remarks do not, however, apply

to the financing of such societies as are established in estates, held directly by Government which should receive such assistance from Government on business terms, as they would have a right to expect from an enlightened land-owner. ”

That the above views expressed so long ago are substantially correct even to-day would appear from the fact that the All-India Registrars' Conference of 1908 unanimously agreed “ that, in the opinion of the conference, in localities where the co-operative movement is still in the stage of experiment or demonstration, financial assistance from Government is justifiable and desirable.” Mr. Wolff, however, is strongly opposed to any Government assistance on the ground that it prevents the growth of the self-reliant spirit essential to the firm establishment of a co-operative undertaking. But it is undeniable that in experimental and demonstrative stages and in crises occurring before large reserves have accumulated, Government financial assistance is necessary.

D.—Attitude of the Government towards the co-operative credit movement in times of famine and distress.

In times of famine and distress the village societies should be helped with *tukkavi* advances, by Government but they should restrict their operations till normal conditions were restored. The All-India Registrars' Conference of 1908 passed a resolution to the above effect, *viz.*, that in times of scarcity and

famine *tukkavi* loans might legitimately be given to keep rural societies alive provided that loans could not be raised elsewhere. But legal doubts have been raised regarding the issue of *tukkavi* to or through societies; if, however, the present law does not permit such issue the act should be amended accordingly.

E.—Future relations of the Government towards the co-operative credit movement.

It is agreed on all sides that Government supervision would probably be always required, though the precise duties of the Registrar would probably undergo some modification. Subject to this reservation the Hon'ble Mr. Gourlay has expressed the opinion that the organisation of the societies for the purposes of inspection and audit should be such that the societies could eventually take over those duties and pay for themselves. The late Mr. Buchan agreed that the object to be aimed at was that the societies should eventually assume responsibility for inspection and audit, but in the meantime he thought that the Government should be prepared to provide an adequate staff. The All-India Registrars' Conference of 1908 passed a resolution to the above effect, *viz.*—"that the time should be looked forward to when the societies should themselves pay for audit and inspection, but that until this could be arranged for, the Government should be prepared to provide such reasonable staff as might be necessary for the continuous development of the movement in the varying conditions of each province."

It appears to us that the joint efforts of both officials and non-officials are and will be necessary for a good long time for the continuous and permanent success of the co-operative credit movement in India. The real solution of the situation lies not in the total withdrawal of Government control, but in the combination of a mixed agency of official and non-official workers whose harmonious working for a series of years may gradually lessen the degree of Government control, till such time when there will be, as H. E. Lord Carmichael has tersely put it, "a government of the societies by the members and for the members" and when "the initiative of the state" will be converted into "an active popular propaganda conducted by the people," so that there will be a co-operative movement which will "stand alone without direct support from Government."

F.—Utilisation of Reserve Funds.

Some authorities maintain that the reserve should never be employed as working capital, but that it should be placed in a safe investment out of control of the society. Others are of opinion that so long as the Reserve Fund is small, it should preferably be employed in the business of the bank, in order that capital may be accumulated quickly, but that when it bears an appreciable ratio to the capital it may be advisable to invest it apart from the society in order to provide security for borrowed capital. Where a Central Bank exists the reserves may

well be deposited with it. The latter view appears to us to be the correct view.

In this connection we would suggest that there should be a maximum limit to the Reserve Fund. Any amount above the maximum should be used in works of public utility as is done in most European countries. This extra amount should be spent mainly in rural water-supply, sanitation and primary education.

Before we conclude, we shall offer a few suggestions for popularising the movement and for increasing its importance.

(1) A village Co-operative Store should be started in connection with each Credit Society.

(2) These societies should be entrusted with the collection of typical "Family Budgets".

(3) A simple text book on co-operative principle should be introduced into our primary schools.

(4) A quarterly all India Co-operative Journal should be published by the Government, it should describe the progress of the movement in the various provinces and contain articles on co-operation and co-operative notes and news.

(5) There should be held, as now, the provincial co-operative conference and the all-India Registrars' Conference—in both of which the non-official element should be sufficiently represented.

(6) Private non-official co-operation should be more and more sought for and the late Mr. Buchan—"above all things we require helpers. Government can do little more than show the

way. Co-operation, if it is to be a power in the land, must be developed by the people themselves. It cannot be too often insisted that the greatest need is for efficient helpers—those with a wide knowledge of the country and its people who will think out the great question of co-operation and apply them to Indian conditions—those with enthusiasm to initiate—and those (not the least important), patient of details and spade work, who will guide and instruct.”

CHAPTER IX.

CONCLUSION.

“We have the beginnings of a great movement,” said H. E. Lord Carmichael in the excellent opening speech before the sixth Bengal Provincial Co-operative Conference, “which will not only bring wealth to the individual but will teach him thrift with all its economic and moral advantages; and it will teach him more: it will teach him to work gratuitously for the good of his fellowmen realising that his salvation is bound up in the salvation of those around him. I believe that the young men of Bengal are ripe for such work. I know how they worked in the great floods in the Burdwan Division and how some of them are still working in the flooded areas of Midnapore. I then learnt what they were prepared to sacrifice for the good of others. In Co-operation the young men have an almost unlimited field for such social service and I appeal to them to mak

the most of it. It is not perhaps heroic work, but it is the quiet work of the multitude of men which brings about a great economic revolution." This noble appeal, coming as it does from the august head of our province has a significance all its own : all our educated countrymen should become missionaries of the gospel of Co-operation and should help on the Co-operative movement—a movement which will metamorphose our dark arid Sahara of hopeless rural indebtedness into a beautiful oasis of hope, sunshine and cheerfulness—it will convert sorrow into joy, penury into plenty. It is the work in which the truly patriotic Indian must join if he wants to do some real good to the dumb, debt-ridden millions upon the fruit of whose labour he subsists. And, as the Hon'ble Mr. Lyon has truly remarked, "the movement comprises work for all. For the town man, there is work in the formation and management of Central Banks, of Unions, and of those urban societies which have already proved a valuable branch of our labours ; for the big landlord there is the Union of the co-operative credit societies within his estates and the formation of others in his own village and elsewhere, and there is the friendly interest in the work of other organisers and enthusiasts which will do so much to commend our principles ; for the minor landlords, tenure-holders or talukdars there is the infinitely interesting work of organising individual societies, of awakening the dormant conscience of the people to the advantages of thrift, and, the gradual upraising of public opinion

and public life in rural areas ; and we all know how much in the way of education and sanitation and other necessities of existence depends upon the awakening of the people's conscience. "Nor need it be feared that the work will prove dull or uninteresting. While the politician may sometimes well lose heart when he thinks of the greatness of the subjects with which he deals, and the long and weary distance he must traverse before he can reach his goal, the village and town organiser of co-operative credit societies sees his work justifying itself before his eyes, and his reward comes to him at once in the visible advancement of the people for whom he is living."

We cannot better conclude our paper than by quoting the following passage from the concluding portion of Sir Frederick Nicholson's valuable report. "What is wanted is the individual initiative and continuous devotion of those who, by their position and education, by the wisdom of an educated philanthropy, should lead the country in the path of rural reform. There are in every considerable village, men fully the equal in intelligence and status of men who in Europe locally administer the movement and direct the institution ; it remains only, to find men of apostolic fervour who will pioneer and champion the idea and will labour in person in the villages, not merely or so much in lecturing and writing, good though these may be, but in the actual establishment and administration of humble societies. It is not in great schemes or institutions, nor :

reports or circulars or Government orders, not even in specially granted privileges, that success lies, but in the unassuming labours which, starting with simple ideas, simple aims and simple facts overcome each difficulty as it arises, and perfect, *ambulando*, the systems which shall be found suitable to the needs of the country. It is beyond the powers of any brain, however fertile, of any man, however fully informed to conceive in advance a method, *confectus ad unguem*, of banking for the people, least of all in a country where the conditions are so novel, the banking idea so absolutely unknown as in this country. Success can only arise from the long continued practical efforts of zealous men, who, while informed in the details of every method yet tried, can yet live among the people, vivify them with their own spirit and intelligence, energise them with some of their own enthusiasm and with them work out in actual fact, even though on the humblest lines, the system or systems of the future."

APPENDIX A

Statistics giving a general view of the progress of the movement in India

The table below gives a general view of the progress made since the Act of 1904 came into force. The figures are those for registered societies, and include, in years previous to 1911-12, those for the native state of Mysore, in which (as also in Baroda) co-operative credit societies have been developed under an enactment similar to that in force in British India. Full figures for 1904-5 are not available.

		(79)							
		1904-5	1905-6	1906-7.	1907-8	1908-9	1909-10	1910-11	1911-12 *
Number of societies at end of year —									
Central			9	14	7	15	32	60	120
Urban	5	37	89	89	149	227	321	415	195
Rural	35	237	740	740	1,201	1,766	3,145	4,957	7,562
Total		41	283	843	1,357	2,008	3,498	5,132	8,177
Number of members	...		28,629	90,844	149,160	184,889	230,693	314,101	403,318

* Excluding Mysore.

	1904-5.	1905-6	1906-7.	1907-8	1908-9	1909-10	1910-11	1911-12.
Working capital at end of year —	£	£	£	£	£	£	£	£
Loans from private persons	...	9,369	43,740	82,900	166,254	232,179	356,755	589,818
Loans from other societies	...	...	16,028	38,984	106,441	201,007	395,714	736,102
Share capital	...	8,747	37,054	62,395	98,433	153,888	226,072	350,536
Deposits by members	...	8,262	38,402	61,301	107,868	168,888	284,673	433,547
State aid	643	4,677	18,982	43,454	45,743	48,118	57,165	62,311
Reserve	...	493	3,906	5,237	12,885	22,430	37,391	66,164
Total	643	31,548	158,112	224,272	537,674	826,512	1,357,772	2,238,277
Expenditure during year —								
Loans repaid to private persons	...	1,357	10,099	26,798	94,022	106,950	129,067	310,278
Loans issued to members	...	22,696	158,931	246,201	399,995	530,160	797,655*	1,198,068
Purchase of raw materials and stores.	...	6,754	21,045	26,044	44,959	50,355	44,580	65,765
Profits	...	1,277	7,508	12,061	21,751	31,460	46,195*	71,816
Total	...	32,084	197,563	311,104	560,726	718,926	1,017,497	1,648,928

£1=Rs. 15.

*Excluding Mysore.

APPENDIX B

Statistics showing distribution of societies by provinces

This table, which shows the distribution of societies by provinces at the end of 1911 12, gives also some further information as to the development of the three classes of societies

	CENTRAL			URBAN			RURAL		
	Number of societies	Total member ship	Working capital £	Number of societies	Total member ship	Working capital £	Number of societies	Total member ship	Working capital £
Madras	1	648	208 187	17	13 907	18 804	916	51 986	210 231
Bombay†	9	3 011	83 192	75	6 561	31 200	281	19 247	96 175
Bengal	7	236	2 050	61	9 257	55 677	875	28 776	98 118
Bihar and Oussa	8	111	15 660	39	1 725	3 078	191	2, 482	10 714
United Provinces	31	2 321	134 802	174	28 159	101 890	1 741	68 881	192 151
Punjab	26	1 271	105 200	27	2 157	7 180	1 777	89 758	370 118
Burma	3	1 129	93 185	37	2 150	26 421	691	16 421	723 169
Assam	1	71	6 73	16	1 899	13 833	135	7 853	19 706
Central Provinces and Berar	2	1 178	37 610	20	1 102	5 383	340	9 518	25 246
Cooch	1	183	14 007				22	2 179	5 251
Ajmere	1	52	2 841				160	1 269	1 460
Myers*	1			17	6 801	17 838	63	2 200	8 500

† Excluding and where there were in 1912 seven societies with 631 members and a working capital of £1 233

* Figures for 1911 Details for 1912 are not available but during that year the total number of societies rose to 208 with 13 118 members and a working capital of £15 021 In Baroda there were in 1911 122 societies with 2 815 members and a working capital of over £13 000

£1 Rs 15

APPENDIX C.

Model By-laws for unlimited liability societies.

[Sec 6 sub-section (1) of the Co operative Societies Act, 1912 (Act 2 of 1912) thus describes the conditions of registration

No Society, other than a Society of which a member is a registered society, shall be registered under this Act which does not consist of at least ten persons above the age of eighteen years and, where the object of the society is the creation of funds to be lent to its members, unless such persons—

- (a) reside in the same town or village or in the same group of villages, or,
- (b) save where the Registrar otherwise directs, are members of the same tribe, class, caste or occupation

Section 8 of the same Act runs thus—

(1) For purposes of registration an application to register shall be made to the Registrar

(2) The application shall be signed—

- (a) in the case of a society of which no member is a registered Society by at least ten persons qualified in accordance with the requirements of section 6, sub-section (1) and
- (b) in the case of a society of which a member is a registered society by a duly authorised person on behalf of every such registered society, and where all the members of the society are not registered societies, by ten other members, or, when there are less than ten other members, by all of them

(3) The application shall be accompanied by a copy of the proposed by laws of the society, and the persons by whom or on whose behalf such application is made shall furnish such information in regard to the society as the Registrar may require

It will be seen from the above that sub-section (3) of section 8 of the Co-operative Societies Act of 1912 requires every application for registration of a Co operative Society to be accompanied by a copy of the proposed by-laws of the society For the

guidance of organisers of Co operative Societies of various kinds, model by laws have been issued from the office of the Registrar of Co operative Societies, Bengal To make this little book of practical utility to organisers of Co operative Societies we have incorporated into it some of these model by-laws which are given in this Appendix and in the two following]

N B.—In this Appendix the model by-laws for two kinds of unlimited liability societies, *viz* , co-operative credit societies (represented by the capital letter "A") and *Dharmagolas* or co-operative grain societies (represented by the capital letter "B") are given.

I. Objects.

A.

To improve the condition of its members by means of co-operation and by encouraging thrift and self-help, and with this end in view—

- (1) to raise funds at a reasonable rate of interest by offering the joint and several liability of the members as security in order to utilise such funds in loans to members ,
- (2) to accept deposits in order to stimulate the habit of saving

B.

To create a store of paddy to be lent out to members only for seed grain, maintenance and for repayment of paddy debts at higher interest, and to create a reserve stock for any unforeseen emergencies, such as famine and scarcity

II Membership.

A.

(a) Every member of the Society must be—

- (1) ordinarily resident within———,
- (2) of good character,
- (3) of not less than eighteen years of age, except in the case of a minor heir of a deceased member ,

(4) not already a member of any Society, the liability of which is unlimited

(b) Every member shall pay an entrance fee of—and shall sign his name or put his thumb mark in a Register of members to be kept by the Society in token of his acceptance of these by laws

(c) The members of the Society shall consist of—

(1) those persons who have subscribed to the application for registration and to these by-laws

(2) such persons as shall hereafter become members of the Society by election according to these by laws

B.

The same as in A above with the following changes—

For (a) 4 above read—"not already a member of any other *Dharmagola* , in (b) above read—"in cash or in seers of paddy ' after the words " entrance fee

III. Election of Members.

A & B.

Every person desirous of becoming a member shall apply to the committee of management, which, after careful consideration, may elect him as member or refuse his application. If more than one-fourth of the members of the Society object to the admission of any person as a member, he shall not be admitted. As soon as a member has been elected, he shall sign the Register of Members and pay the entrance fee

The widow, legal heir or nominee of a deceased member, if elected within three months of his decease, shall be exempt from the payment of entrance fee

IV Cessation of Membersip.

A & B.

Membership shall cease by (a) permanent removal of residence beyond the prescribed limits, (b) expulsion, (c) bankruptcy, and (d) death

Any member can at any time after three years of his first becoming a member withdraw from the Society after giving notice to the committee, provided there are no debts due by him to the Society

A member who permanently removes his residence from the prescribed area shall ordinarily cease to be a member, unless the committee permit him to remain a member

V Suspension and expulsion of Members.

A

(a) The Committee of Management may fine, suspend or expel a member—(1) for any breach of these by laws or of the rules of the Society, (2) for wilful default, (3) for any conduct proved to their satisfaction by which he may weaken the credit of the Society or bring it into disrepute

(b) All such cases shall be referred for confirmation to a general meeting which must be called within two weeks of the verdict Fines and suspensions may be confirmed by a majority of members present at the meeting, but for expulsion a vote of not less than three fourths is necessary

B

The same as in A above with the following alterations—

for (a) 2 above read—"for being in default to the Society"
for (b) above read—"all such cases shall be reported to the next general meeting for confirmation"

VI The funds of the Society and its borrowing power.

A.

To carry on the work of the Society the Committee of Management may, on behalf of the Society, borrow money and accept deposits The maximum amount of borrowings in the shape of loans and deposits shall be determined annually at the general meeting of the Society, but may be revised at any subsequent general meeting during the year

B.

To carry on the work of the Society, the Committee of Management may raise paddy by way of contributions or donations and may also, on behalf of the Society, borrow paddy and accept deposits of grain. The Committee of Management may, in special circumstances, borrow money with a view to its conversion into paddy. The maximum amount of borrowings in the shape of loans and deposits shall be determined annually at the general meeting of the Society, but may be revised at any subsequent general meeting during the year.

[N B—In the case of [co operative grain societies every member shall be bound to contribute paddy to the stock of the *Dharmagola*, if the general meeting decides to levy contributions in the interests of the association. The general meeting may fix the rate at which such contribution shall be levied.

It is further expected that every member shall make voluntary contributions in cash or paddy on special domestic occasions, such as *saddha*, marriage, birth of a child etc., when cash is contributed it should be either added to entrance fees or converted into paddy.]

VII Liability of Members.

A & B

The liability of the Society shall be unlimited, i.e., each member equally with every other member shall be jointly and severally liable for the debts, if any, of the Society.

The liability of a past member for the debts of the Society, as they existed at the time when he ceased to be member, shall continue for a period of two years from the date of his ceasing to be a member.

The estate of a deceased member shall be liable for a period of one year from the time of his decease for the debts of the Society as they existed at the time of his decease.

All documents creating a charge or obligation on the Society shall be signed by at least three members of the Committee of Management, including the Chairman or Secretary, and shall

bear the common seal of the society, provided that in case of receipts for deposits and repayments of loans the Chairman or any officer bearer duly authorised by the Committee of Management may sign

VIII. General Meeting.

A.

(a) The supreme authority of the Society shall be vested in the general meeting. The general meeting must maintain a general supervision over the business of the Society, especially over the acts of the Committee of Management and Supervisors, and shall do all things which the interests of the Society demand.

(b) The general meeting shall meet at least once a year, or as often as may be necessary. At least a week's notice of the meeting should be given. The meeting shall elect its own Chairman. The proceedings of all general meetings shall be recorded by the Secretary and signed by the Chairman. Extraordinary general meeting can be called whenever necessary, at the requisition of the Registrar, the Committee of Management, the supervisors or members numbering at least one-fifth of the number of registered members subject to a minimum of eight members. Each member shall have one vote. Only members present can vote. It is the duty of all members to attend the general meeting. One-fifth of the number of registered members shall constitute a quorum, but the minimum number of members present shall be eight. On any question the opinion of the majority shall prevail. The Chairman shall have a casting vote. At every annual general meeting the Chairman shall read out from the by laws the duties of the general meeting and shall explain the same to the meeting before its business commences.

(c) Its duties shall be—

- (1) to review the working of the society,
- (2) to elect the Chairman and members of the Committee of Management and to appoint supervisors,

- (3) to decide the maximum amount of liability to be incurred during the year ,
- (4) to fix the rate of interest to be paid by borrowers and to depositors ,
- (5) to decide the maximum amount which any member can borrow at one time ,
- (6) to decide the maximum period for which any loan can be granted ,
- (7) to hear all complaints against the Committee of Management and office-bearers ,
- (8) and in particular in the case of the annual general meeting to receive a report of the number of loans and their amount made to members of the Committee of Management during the past year ,
- (9) to dismiss the Chairman, the members of the Committee of Management or Supervisors for any acts contrary to the interests of the Society ,
- (10) to empower the Committee of Management, if it considers it necessary, to levy penal interest for default and fines payable by such members as fail without good excuse to attend general meetings , to fix the rate of penal interest and fines , to remit, if considered desirable, penal interest and fines levied by the Committee of Management ,
- (11) to transact any other business that may be considered necessary

B

The same as in A above but except clause (c) 9 and with the following for clause (c) 10— “ to empower the Committee of Management, if it considers it necessary, to levy additional interest for default and fines payable by such members as fail without good cause to attend general meetings , to fix the rate of additional interest and fines , to remit, if it is thought desirable, any such interest and fine levied by the Committee of Management

IX Committee of Management (Punchayets)

A

(a) Subject to the direction of the general meeting, the management of the Society's affairs shall vest in the Committee of Management. The Committee shall consist of not less than five members, and not more than nine members, who shall be elected annually at the general meeting. The Committee shall elect any one of these members as Secretary. They shall meet at least once a month on a fixed day and at a fixed place, and shall record their proceedings in the minute book of the Society which shall be signed by the Chairman and the Secretary. Three members should constitute a quorum, and four members if the Committee exceeds six. The duties of the Committee shall be—

- (1) to elect new members ,
- (2) to raise loans, subject to the provisions of rule VI
- (3) to deal with applications for loans ,
- (4) to receive and disburse money as may be required ,
- (5) to prepare periodically a balance sheet ,
- (6) to check the security of each loan outstanding ,
- (7) to collect, as they fall due, loans with interest, and to take necessary steps to recover all arrears ,
- (8) to verify the stock balance at least once a year ,
- (9) to take action on the report of the supervisors ,
- (10) generally to carry on the work of the society

(b) The members of the Committee of Management shall be responsible for the good management of the society. They shall be liable to the society for any wilful neglect of their duties and for any expenditure contrary to the rules and by-laws of the society.

(c) No Chairman or Secretary shall hold office for more than three years in succession without the previous permission of the Registrar or shall be eligible for re-election within two years of such period without such sanction.

(d) No member of the Committee shall receive any remuneration for any work done by him for the society except the writer of the books

(e) If a member of the Committee die or resign, or fail to attend three Committee meetings consecutively, the other members of the Committee and the supervisors if any may appoint a new man to take his place till the next general meeting

B

The same as in A above with the following addition after the words ' writer of the books ' in (d)—" and the *golada* The Committee may appoint a Kiyal to weigh the grain on such remuneration as it thinks fit

[N B the duties of the Secretary and *Golada* shall be—

- (1) to keep the accounts and place them before the Committee at each meeting
- (2) to disburse and receive grain as ordered by the Committee, no grain shall be disbursed without an order from the Committee
- (3) to keep one key of the *gola* the duplicate to be kept with one of the Committee]

X Duties of Supervisors

A

The number of Supervisors shall be not less than three Their duties shall be—

- (1) to see that loans are applied to the purpose for which they were granted, and to bring all cases of misappropriation to the notice of the Committee,
- (2) to watch the security of each outstanding loan, and to keep the Committee informed regarding it,
- (3) to count the cash in hand, and to report to the Committee at least once a quarter,
- (4) to bring to the notice of the Committee any abuses which they may have observed,

- (5) to perform such other duties as may from time to time be entrusted by the general meeting

The Committee shall be bound to produce all documents and accounts, and to give every available information to any of the Supervisors

B

The same as in A above with the exception of (1) and with the following instead of (3)—“to be presented at the time of annual verification of the stock by the Committee of Management

XI Loans to Members

A

- 1 The Society shall grant no loan, except to a member
- 2 The rate of interest on loans granted by the Society shall not exceed—per cent per annum Compound interest shall not be charged
- 3 Loans shall be granted for any necessary purposes, but they shall not be granted for any unnecessary purposes Any person desiring a loan shall state definitely the object for which the loan is required Every loan shall be expended only on the object for which it was given, and a borrower shall be bound to give satisfactory proof to the Society's office-bearers when called upon to do so, regarding the employment of the loan If a loan is misapplied, the Committee of Management shall have power to require immediate repayment in full with interest, and in addition to impose a penal interest of one rupee for each rupee of the loan
- 4 Every applicant for a loan for productive purposes must present one surety if the amount be not more than Rs 25, and two sureties for larger sums No member shall stand surety for his own surety or sureties For non-productive purposes an additional surety must be presented in each case In addition to this the Committee of Management may take mortgages of immovable property, by way of collateral security, whenever it considers it necessary

5 Repayment *limits* shall be fixed by the Committee of Management at the time the loan is granted with reference to the purpose to which the loan is to be applied and the crops grown by the borrower and his other sources of income, but no loan shall be granted for any period exceeding that which may from time to time be fixed by the general meeting. In the case of loans granted for annually recurring agricultural purposes full repayment should be made within a year. The Committee of Management may grant an extension of time in exceptional circumstances to be notified to the Committee before repayment or instalment falls due.

6 If a borrower fails to pay interest or any instalment of principal and the Committee of Management does not grant an extension of time, the whole loan shall become immediately due and payable, irrespective of any conditions on which the loan was made, together with penal interest.

7 If any property is purchased by the borrower or released from mortgage with money advanced by the Society, the purchaser shall not sell, mortgage or transfer it until the debt to the Society has been paid, except with the consent of the Committee of Management, or in order to satisfy his debt to the Society.

8 Any sum outstanding against a member who dies, with draws or is expelled, or otherwise ceases to be a member, shall be immediately payable, irrespective of any conditions on which the loan was made.

9 If the Committee of Management finds that the security for an outstanding loan has become insufficient, it shall call on the borrower to provide satisfactory security and in default shall call in the loan at once.

10 Notwithstanding anything contained above the society reserves to itself the right of calling in any outstanding loans on four weeks' notice, but this power shall not be exercised save when there is a general run upon the society by its creditors, or when the borrowers of the society or their sureties are in such a position that the funds of the society are endangered or in other exceptional circumstances.

B

1 The society shall grant no loan except to a member

2 The rate of interest on loans shall be determined from time to time by the general meeting, but shall not exceed 25 per cent

3 Loans shall be granted only for the purposes mentioned in rule I Any person desiring a loan shall state definitely the object for which the loan is required, and every loan shall be expended only on the object for which it was given.

4 Every applicant for a loan must present one surety if the quantity be not more than — and two sureties for larger loans The Committee may require additional security if it considers it necessary

5 Repayment *lists* shall be fixed by the Committee of Management at the time the loan is granted with reference to the purpose to which the loan is to be applied and the crops grown by the borrower and his other circumstances of income but no loan shall be granted for any period exceeding that which may from time to time be fixed by the general meeting In the case of loans granted for seed grain and maintenance purposes, full repayment should be made after the next crop The Committee of Management may grant an extension of time in exceptional circumstances to be notified to the Committee before the repayment or instalment falls due

6 If a borrower fails to pay interest or any instalment of principal, and the Committee of Management does not grant an extension of time, the whole loan shall become immediately due and payable irrespective of any conditions on which the loan was made together with penal interest

7 If any property is released by the borrower from mortgage with the paddy advanced by the society, the borrower shall not sell, mortgage or transfer it until the debt to the society has been paid, except with the consent of the Committee of Management or in order to satisfy his debt to the society

8 Any advance outstanding against a member who dies, withdraws or is expelled or otherwise ceases to be a member,

shall be immediately payable irrespective of any conditions on which the loan was made

9 and 10—the same as 9 and 10 in A above

XII. Deposits.

A

Subject to any rules made by the general meeting, the Committee shall decide the terms on which deposits shall be accepted and the rates of interest for the various kind of deposits, provided that the rate shall not exceed—for any kind of deposit

B

Subject to any rules made by the general meeting, the Committee shall decide the terms on which deposits of paddy or grain shall be accepted and the rates of interest for the various kinds of deposits, provided that the rate shall not exceed two thirds of the rate at which loans are granted

XIII Disputes.

A. & B.

All disputes which the Committee of Management cannot decide shall be referred to the Registrar who may either decide the matter himself or appoint an arbitrator or arbitrators. The decision of the Registrar or arbitrators shall be final

XIV Books and Account

A.

(a) All the account books and the by laws and other records shall be open to the inspection of members while the Committee of Management is sitting

(b) A sum not exceeding 10 per cent of the gross profits may be placed at the disposal of the Committee of Management for rewarding the keeper of the book

B.

The same as in A above with the exception of (b)

XV Reserve fund and profits

A

1 The society shall maintain a reserve fund from the profits earned by it Entrance fees fines and all profits after deduction of working expenses and any expenditure which is a lawful charge on the society shall be credited to this fund

But, with the sanction of the Registrar, the general meeting may, after one-fourth of the net profits in any year has been carried to a reserve fund, contribute an amount not exceeding 10 per cent of the remaining net profits to any charitable purposes, such as maintenances of schools village sanitation etc

2 The reserve fund shall belong to the Society as a whole and shall be indivisible amongst the members If the society ceases to exist, the reserve fund shall be disposed of for the common good according to the wishes of the majority of the members subject to the approval of the Registrar

3 The fund which is intended to be a source of strength to the society, shall ordinarily be available for any of the following purpose, --

- (1) to cover any losses arising from unforeseen circumstances
- (2) to meet any liability when the society has not got a sufficient cash balance, such payments being reimbursed to the fund as soon as collections are made
- (3) to serve as security for any loans which the society has to contract

B

1 The society shall maintain a reserve fund from the profits earned by it All profits after deduction of working expenses and any expenditure on charitable purposes up to the limit laid down in the Co operative Societies Act shall be credited to this fund

2 The reserve fund shall belong to the society as a whole and shall be indivisible amongst the members If the society ceases to exist the reserve fund shall be disposed of for the com-

mon good according to the wishes of the majority of the members subject to the approval of the Registrar.

3. The fund, which is intended to be a source of strength to the society, shall ordinarily be available for any of the following purposes:—

- (1) to cover any losses arising from unforeseen circumstances;
- (2) to meet any liability when the society has not got sufficient stock, such payment being re-imbursed to the fund as soon as collections are made;
- (3) to serve as security for any loans which the society has to contract;
- (4) to be lent out on loans only in the years of total failure of crops.

[N. B. There are some special rules in connection with *Dharmagolas* which are as follow—

1. Each *Gola* shall be locked with two substantial locks. The key of one of these locks shall remain in charge of the Secretary and *Goladar* and the key of the other lock shall remain in charge of the Chairman or one of the other members of the Committee of Management. The *Goladar* shall be responsible for the safe custody of the stock, but the other *Punchayets* shall be responsible to the villagers for the safety of the *Gola*.

2. In the *Gola* a compartment shall be provided for keeping apart seed grain and another for keeping reserve stock.

3. To prevent deterioration of the stock the *Punchayets* shall exchange old paddy for new paddy whenever they think it necessary to do so, and at such rates as may from time to time be determined by the general meeting, or in the absence of any resolution passed at the general meeting, at such rate as may be deemed proper by them.

4. At the close of each working year the *Punchayets* shall weigh the stock of paddy in the presence of the supervisors who will certify the quantity of paddy found in it.

5. They shall then prepare a complete account of the year's transaction including the quantity of decrease in stock on account of wastage, loss in weight and other causes.

6. As soon as the accounts are ready, the *Punchayets* shall convene the annual general meeting.

7. In this meeting the accounts shall be carefully examined and the quantity of wastage should be considered. If the percentage is unusually high, *Punchayets* shall be required to explain the cause of it. If the explanation is not satisfactory, the *Punchayets* shall be made liable for the loss, and the loss shall be realised from them in any manner that may be settled at the meeting.

8. All income on account of admission fees shall be spent on the construction and repair of the *gola*. If such fees and donations be not sufficient for the construction and repair of the *gola*, the Committee may utilise the reserve paddy to meet the deficiency.

XVI. Winding up.

A. & B.

The society shall be wound up whenever three-fourths of the members wish it, provided that the Registrar approves.

XVII. General.

A. & B.

1. Any of these by-laws may be altered or rescinded or new by-laws may be made at a general meeting held in accordance with the rules made by Government in this behalf, and such amendment will come into force after it has been approved and registered by the Registrar.

2. The society shall keep a copy of the Co-operative Societies Act, (Act 2 of 1912) of the rules made by Government under the Act and a copy of these by-laws open to inspection free of charge at all reasonable times at its registered office.

3. All matters not specially provided for shall be decided according to the terms of the Co-operative Societies Act, (Act 2 of 1912), and the rules framed under section 43 of that Act.

The above are the by-laws referred to in our application for registration dated

Signature of applicants.

Appendix D.

By-Laws for forming Agricultural Sale Societies and Co-operative Supply Societies with Limited Liability, :—the former are represented by the capital letter A, the latter, by B.

I. Objects.

A.

To assist the members in the disposal of their crops and the products of Agricultural Industry carried on by them and to enable the members by means of joint sale to obtain better value for their crops and produce.

B.

To promote the economic interests of its members by means of business operations in common and with this end in view—

- (1) to carry on the trade of general dealers ;
- (2) to purchase in common agricultural requisities, such as manures, seeds, etc. ;
- (3) to procure machines and other objects of utility on common account for the use of the members of the society ;
- (4) to manufacture any articles dealt in by the society, if approved by the general meeting.

II. Capital.

A. & B.

1. The nominal capital of the society shall be Rs.—— divided into——shares of the value of Rs. 10 each to be subscribed by the members only.

2. To carry on its work the society may contract loans by way of deposits or otherwise provided that the total amount of liability shall not exceed five times the value of the subscribed shares.

III Membership

A & B

Membership of the Society shall be open to all persons who are members of any of the co operative societies which are affiliated to——Central Bank Limited

IV Election of Members

A & B

Every person desirous of becoming a member shall apply to the Board of Directors who may elect him as a member or refuse his application. As soon as a member is elected he shall subscribe shares according to the rules of the society and pay an entrance fee of——. The widow legal heir or nominee of a deceased member if elected within three months of his decease, shall be exempt from the payment of entrance fee.

V Cessation of Membership

A & B

A member shall cease to be a member of the society if he ceases to be a member of any of the societies in (affiliated to the) or if he is expelled from the society or if he transfers all his shares according to the rules of the society.

VI Suspension and Expulsion of Members

A & B

The Board of Directors may fine suspend or expel a member—

- (1) for any breach of these by laws or of the rules of the society
- (2) for being in default to the society
- (3) for any conduct proved to their satisfaction by which he may weaken the credit of the society or bring it into disrepute

All such cases shall be reported to the next General Meeting for confirmation.

VII. Liability of Share-holders. A. & B.

(a) The liability of the share-holders for the debts of the society shall be limited to the nominal value of the shares held by them.

(b) The liability of a past member to the extent mentioned in clause (a) for the debts of the society as they existed at the time when he ceased to be a member shall continue for a period of two years from the date he ceased to be a member.

(c) The estate of a deceased member shall be liable to the extent mentioned in clause (a) for a period of one year from the time of his decease for the debts of the society as they existed at the time of his decease.

VIII. Rules regarding shares. A. & B.

1. The general meeting may from time to time determine the number of shares which each member shall hold, but no member shall hold more shares than represent a maximum of one-fifth of the subscribed share capital of the Society nor hold more shares than represent a nominal value of Rs. 1,000.

2. For every share Rs. 5 shall be subscribed and the balance shall represent the reserve liability of the share-holders to be paid, either in whole or part should the assets at any time be found unequal to meet the liabilities of the society. The required payment shall be made either in one lump or in such instalments as may be fixed by the Board of Directors.

3. Interest at the rate of ——— per cent per annum shall be levied on all deferred payments of share calls from the date on which the calls fall due.

If the payment on account of shares remains unpaid for more than three months, the Board of Directors may declare such shares forfeited together with all payments made thereon, and the rights of membership attaching to those shares extinct. Such

shares may be renewed within a period of three months from the date of the notice of forfeiture on payment of all arrear amounts, including interest and a renewal fee of Rs ————per share.

4. In the event of cessation of membership on any grounds other than death or default of share payment the net value of the share or shares held by a member after deduction of the member's dues to the society shall be paid to the member within six months from the date of cessation.

5. In the case of the death of a member, his shares may be transferred to the person nominated in accordance with the Co-operative Societies Act, or, if there is no nominee, to such person as may appear to the Committee to be the heir or legal representative of the deceased member, provided that such nominee, heir or legal representative, as the case may be, is eligible for membership or on his application within one month of the death of the deceased member to any person specified in the application who is so eligible, otherwise the amount actually paid by the deceased member on the shares shall after deduction of his dues to the Society be paid to the nominee, heir or legal representative, as the case may be, within six months from the date of the death of the member and the society shall thereupon be absolved of all liability in respect of such money.

6. Shares may be transferred with the approval of the Board of Directors to a member or to a person who is eligible for admission and whom the Board of Directors is willing to admit as a member. Transfer of shares to non-members shall not be permitted.

7. Share-holders shall be entitled to certificates under the common seal of the society specifying the share or shares held by them. If such certificates are lost or worn out they may be renewed on payment of

IX. Conduct of Business

A.

1. The society shall build such sheds or godowns as may be necessary and may from time to time acquire lands for the purpose.

2. Every member dealing with the society shall be bound to carry out such instruction and rules as may from time to time be prescribed by the Board of Directors with regard to grading according to the quality and size of products made over to the society for sale.

3. When a member brings in his produce, he shall be granted a receipt for the same and the Board of Directors may make immediate payment provided that the rate shall not exceed the market value of the produce at the time of delivery.

4. The society may, if it facilitates the disposal of any produce delivered by the members, purchase similar articles from non-members.

B.

1. The general meeting may from time to time draw up complete list of articles to be dealt in by the society for the guidance of its officers.

2. The society shall build such sheds or godowns as may be necessary and may from time to time acquire land for the purpose.

3. The Board of Directors shall appoint such salaried officer as may be necessary and shall from time to time determine their duties and hours of attendance at the places of business.

4. The prices of goods shall be fixed by the Committee of Management in such a way that, in addition to the actual cost, the expenses of management and other business charges, a margin of profit is obtained with a view to the payment of dividend on share capital, the building up of a reserve fund and the possible grant of rebate to members on purchases and as far as possible the sale prices of goods shall coincide with the price prevailing in the nearest important market at the time.

5. The Society may sell goods through commission agents weekly *hats* or through such agents as will undertake to go about with the goods to villages where there are co-operative societies affiliated to the Central Bank, or where there are sufficiently large number of share-holders, but such agents shall not under any circumstance be allowed to charge a higher price beyond the

sale price fixed by the society *plus* the commission that has been decided upon

6 The society shall not ordinarily sell to non members except in any of the circumstances mentioned below —

- (1) whenever the speedy disposal of any article is necessary to prevent its deterioration,
- (2) whenever the society has got a surplus stock of any article which cannot be disposed of amongst the members
- (3) whenever the society sells articles through its employees at weekly *kats* in the neighbourhood,
- (4) whenever commission agents are employed for sale

7 Dealings shall be for cash All goods sold shall be paid on delivery or if the Committee so directs on order

In exceptional circumstances a member may be allowed credit in goods up to two-thirds of the paid up value of shares But such dues must be paid at least a fortnight before the accounts of the society are closed, or within two months from the date the goods are delivered, whichever is earlier

8. The general meeting may from time to time open branches at suitable centres and may fix the area within which each branch shall ordinarily operate and the general meeting shall appoint local directors to carry on the business of the society Every local Board of Directors shall, subject to the control of the Board of Directors, exercise the same powers with regard to the work of the branch it represents as the Board of Directors All documents executed by the local Directors with regard to the work of the branch society in the manner laid down in the by-laws shall be binding on the society

[A B—To ensure the success of the Co-operative Supply Society it shall be the duty of the share-holders not to purchase goods anywhere else, which are dealt in by the society, it being clearly to their own interests to obtain good articles for ready sale at a moderate price and to participate in any benefits to be derived from the society]

X. Profits.

A

1. The accounts of the Society shall be closed half-yearly or annually. When the accounts of the Society are closed, the net profits shall be applied as follows :—

- (a) 25 per cent. shall be placed to the reserve fund ;
- (b) Dividend shall be paid at a rate which shall not exceed 9½ per cent. on the amount actually paid on shares ;
- (c) The balance or such portion of the balance as may be decided upon may be applied in paying a bonus to the members in proportion either to the value or amount of each kind of produce made over to the Society or in proportion to the margin of profit which the Society makes by disposing of each kind of produce.

2. The Society may also, if funds permit, pay a bonus to the employees and subject to the provisions of section 34 of the Co-operative Societies Act make contributions to charitable purposes.

B

1. The accounts of the Society shall be closed half-yearly or annually. When the accounts of the Society are closed the net profits shall be applied as follows :—

- (a) 25 per cent. shall be placed to the reserve fund ;
- (b) Dividend shall be paid at a rate which shall not exceed 9½ per cent. on the amount actually paid on shares ;
- (c) The balance shall be employed in such a manner as may be determined by the General Meeting or shall be carried forward.

2. The General Meeting may sanction a rebate to the members of the society from the surplus profits of the society in proportion to the amount of the purchases, during the period to which the profits relate.

3. The society may, also, if funds permit, pay a bonus to employees and, subject to the provisions of section 34 of the Act, make contributions to any charitable purposes.

XI. General Meeting.

A & B.

1. The supreme authority of the society shall be vested in the General Meeting of all the members. General Meeting shall be held as soon as the accounts of the Society are closed to consider the disposal of profit and to appoint the Board of Directors and other office-bearers and to transact any other general business of the Society. Extraordinary General Meeting may be called at any time by the Board of Directors and shall be called if one-tenth of the members demand it.

2. The General Meeting shall be held at a time and place which shall be duly notified at least 14 days before the date fixed. Each share-holder shall have one vote irrespective of the number of shares held. Voting by proxy shall not be allowed except in the case of *puṣṭanāśin* ladies. The Chairman shall have a casting vote. On all questions the opinion of the majority shall prevail. One-fifth of the total number of share-holders of the Society shall constitute a quorum.

3 If in the case of Ordinary General Meeting a quorum is not forthcoming, the Chairman shall postpone the Meeting to a date not less than seven days and not more than a fortnight later, and the business transacted at the postponed Meeting shall be the same and no other than that proposed for the original date of Meeting. At such postponed Meetings if a quorum is still not forthcoming resolutions may be carried by a majority of three-fourths of the members or delegates present.

4 Subject to the control of the General Meeting the entire management of the affairs shall vest in the Board of Directors which shall consist of not less than five members. The Board of Directors may appoint such salaried and non-salaried officers as may be thought necessary and from time to time define the respective duties of such officers.

XII. Representation.

A.

1. All changes creating an obligation to the Society shall be signed by at least three members of the Board of Directors, including either the Chairman or the Secretary and shall bear the common seal of the Society.

2. The conduct of the business of the Society as well as the representation of the Society as regards its business may be handed over to the individual members and also to other officers of the society. The authority of such individual members and officers shall be regulated in accordance with the powers vested in them by the Board of Directors; in case of doubt it extends to all legal transactions which the execution of such business usually involves.

B.

The same as in A above with the following alteration—For the words "All changes.....to" in (1) read "All documents creating a charge or obligation on."

XIII. Deposits:

A & B.

The Board of Directors may frame rules subject to the direction of the general meeting regarding the terms and conditions on which deposits shall be accepted and withdrawn and regarding the rates of interest for various kinds of deposits and the Board may make additions to, or alterations in, these rules from time to time.

XIV. Reserve Fund.

A & B.

(a) The reserve fund shall consist of—

- (1) twenty-five per cent. of the profits annually placed to the fund in accordance with rule—;

- (2) any sums allotted to it out of the profits or otherwise ,
- (3) entrance fees after deduction of the preliminary expenses incurred in constituting the Society ,
- (4) the value of all shares forfeited to the Society and lapsed dividends

(b) The reserve fund shall belong to the Society and be indivisible amongst the members. It shall ordinarily be invested in Government securities, Post Office Savings Bank or in any co-operative institution approved by the Registrar, or in any other manner laid down in section 32 of the Co-operative Societies Act.

(c) The reserve fund shall be available for any of the following purposes —

- (1) To cover any losses arising from any unforeseen circumstances, such drawings upon it being reimbursed to the fund from the next accruing profits
- (2) To meet any call on the Society which cannot be met otherwise, such payments being reimbursed to the fund when fresh collections are made
- (3) To serve as security for any loans which the Society has to contract

In the case of dissolution of the Society the reserve fund shall be applied to such purposes as may be determined, with the approval of the Registrar, by the majority of the members.

XV. Miscellaneous.

A & B.

Every shareholder shall be supplied with a copy of the by-laws.

XVI. Dissolution

A & B.

The Society shall be wound up, with the approval of the Registrar, if three fourths of the members present at a general meeting, specially summoned to consider the question, vote for it.

XVII. Disputes.

A & B.

Any disputes which cannot be decided by the general meeting or by arbitration shall be referred to the Registrar, whose decision shall be final.

XVIII. Special Membership.

A & B.

Notwithstanding anything contained above any person approved by the Registrar may be admitted as a member of the Society if it is considered necessary in the interests of the Society.

XIX. General.

A & B.

(a) Any of these by-laws may be altered or rescinded or new by-laws may be made at a General Meeting held in accordance with the rules made by Government in this behalf and such amendment will come into force after it has been approved and registered by the Registrar.

(b) The Society shall keep a copy of the Co-operative Societies Act, 2 of 1912, of the rules made by Government under the Act, and a copy of these by-laws open to inspection free of charge at all reasonable times at its registered office.

(c) All matters not specially provided for, shall be decided according to the terms of the Co-operative Societies Act, 2 of 1912, and the rules framed under section 43 of that Act.

The above are the by-laws referred to in our application for registration dated _____ .

Signatures of applicants.

APPENDIX E

Model By-laws for forming Co-operative Stores with Limited Liability.

Objects.

1 The objects of the society are (1) to purchase the necessities of life for retail to its members, (2) to carry on, in common, trade, both wholesale and retail, for the benefit of its members, (3) to encourage thrift, self help and co operation generally among the members

Capital.

2 The nominal capital of the society shall be Rs , which shall be divided into shares of the value of Rs each to be subscribed by members only The number of shares may at any time be increased by a resolution of the general meeting

Borrowing power of the Society.

3. To carry on its work the society may contract loans by way of deposits or otherwise, provided that the total amount of liabilities shall not exceed five times the value of the paid-up capital.

Membership—Election—Cessation.

4 Membership of the society shall be open to persons residing in
employees of , and the members of the society shall consist of those who have subscribed to the application for the registration, or who may hereafter be elected according to these by laws

5 Every member shall pay an entrance fee of and shall take at least one share in the society and shall sign his name in a register containing a list of names, descriptions and addresses of the members of the society in token of his acceptance of these by-laws When a member has paid his entrance fee and the first instalment on his share he shall be deemed to have

acquired all the rights, obligations and responsibilities of member of the society as laid down in the by-laws.

6. Every person eligible under these by-laws who is desirous of becoming a member shall send in an application to the Secretary in a form to be prescribed by the Committee of Management, supported by two members of the society. Such applications shall be dealt with by the Committee of Management. In the case of rejection, his supporters shall have a right of appeal to the general meeting.

7. Membership shall cease by—

- | | | |
|-----------------|--|-----------------|
| (a) withdrawal, | \| | (c) bankruptcy, |
| (b) expulsion, | \| | (d) death. |

A member who permanently removes his residence from the prescribed area shall ordinarily cease to be a member unless the Committee permit him to remain a member.

Subject to these by-laws, a member may, by giving 3 months' notice in writing withdraw from the society.

8. The Committee may, after open investigation, fine, suspend or expel a member, (1) for any serious breach of the by-laws and the rules of the Society, (2) for being in default to the society after due notice has been given, and (3) for any conduct considered dishonourable by the Committee or which may weaken the financial credit of the society or bring it into disrepute. All cases of fines, suspension and expulsion shall be reported to the next general meeting for confirmation. During suspension a member shall not be allowed rebate on his purchases and dividend on his shares.

Rules regarding Shares.

9. No member shall be allowed to hold more than one-fifth of the subscribed share capital of the society, nor to hold more shares than represent a nominal value of Rs. 1,000.

10. Shares shall be paid up by instalments of not less than Re 1 per share per month. If an instalment of any share is overdue for more than three months, the shares shall be forfeited and all previous payments made thereon shall become the property of

the society Such shares may be renewed if the sum due is paid within one calendar month from the notice of forfeiture, including interest at per cent

11 Any sum due to a member on account of dividend and rebate on purchases shall not be paid to him, but shall be credited to his account until he holds one fully paid up share When he holds one fully paid-up share, half the dividend and rebate due to him shall similarly be credited to his share account until the full value of three shares stands at his credit Thereafter he shall be entitled to draw full dividend and rebate money

12 In the case of the death of a member his shares may be transferred to the person nominated in accordance with the Co-operative Act, or if there is no nominee, to such person as may appear to the Committee to be the heir or legal representative of the deceased member, provided that such nominee or legal representative, as the case may be is eligible for membership on his application within one month of the death of the deceased member to any person specified in the application who is so eligible, otherwise the amount actually paid by the deceased member on the shares, shall, after deduction of his dues to the society be paid to the nominee, heir or legal representative, as the case may be, within three months from the date of the death of the member and the society shall thereupon be absolved of all liability in respect of such money

13 A member on giving three months' notice in writing to the Committee may withdraw the whole or any portion of his share capital He shall be entitled, on the expiry of his notice to receive his share money after deduction of any sums due from, him to the society This rule is subject to the following provisos—

- (a) not more than one tenth of the subscribed share capital as it stands on 31st December of any year shall be withdrawable during the subsequent year ,
- (b) the Committee of Management may at any time by resolution suspend the right of withdrawal for the period mentioned therein but such resolution shall

be subject to confirmation at the next general meeting;

- (c) no dividend shall be paid for shares withdrawn before formal declaration of dividends at the end of the half-year.

14 If a member ceases to be a member on account of permanent removal of residence within the prescribed area, expulsion or bankruptcy, the net value of share or shares held by him after deduction of his dues to the society shall be paid to him within three months from the date of the cessation of membership.

15. Should the Committee have more share capital on hand than they can profitably invest, they may reduce the number of shares held by members, the largest holdings being first reduced.

Liability.

16. (a) The liability of the members for the debts of the society shall be limited to the nominal value of the shares held by them.

(b) The liability of a past member for the debts of the society as they existed at the time when he ceased to be a member shall continue for a period of two years from the date of his ceasing to be a member.

(c) The estate of a deceased member shall be liable for a period of one year from the time of his decease for the debts of the society, as they existed at the time of his decease.

Representation.

17. All documents creating a charge or obligation on the society shall be signed by the Chairman and Secretary or by three members of the Committee of Management, including either the Chairman or the Secretary, provided that in the case of receipts and cheques upto Rs. and receipts for deposits the Chairman or the Secretary or any office-bearer duly authorised by the Committee may sign

General Meeting.

18. The supreme authority of the society shall be vested in the general meeting of all members. General meeting shall be of two kinds—ordinary and extraordinary. Ordinary general meetings shall be held as soon as the accounts of the society are closed. Extraordinary general meeting may be called at any time by the Board of Directors and shall be called if one-tenth of the members demand it.

19. The general meeting shall be held at a time and place which shall be duly notified at least 14 days before the date fixed. Each shareholder shall have one vote irrespective of the number of shares held. Voting by proxy shall not be allowed except in the case of *purdanushin* ladies. The Chairman shall have a casting vote. On all questions the opinion of the majority shall prevail. One-fifth of the total number of share-holders of the society shall constitute a quorum. If at the hour fixed for an ordinary or extraordinary meeting a quorum is not forthcoming, the Chairman shall, if the meeting has been called on the requisition of members, dissolve it; if otherwise convened he shall postpone the meeting to a date at least seven days and not more than two weeks later, and the business to be transacted at the postponed meeting shall be the same and no other than that proposed for the original date of meeting. At such postponed meetings, if a quorum is still not forthcoming, resolution may be carried by a majority of three-fourths of the members present.

22. The functions of an ordinary general meeting shall be :—

- (a) to receive from the Committee or any officer of the society the half-yearly report on the business of the society;
- (b) to pass the half-yearly balance sheets;
- (c) to review the work of its officers and hear and decide all complaints against them;
- (d) to determine the rate of dividend on share capital and the sale of rebate on purchase. The general meeting

- may reduce, but shall not enhance the rates proposed by the Committee ;
- (e) to decide the amount of liability in the matter of deposits and loans which the Committee may incur during the coming half year and to fix the rates of interests thereon ;
 - (f) to decide as to all the changes in the by-laws and rules ;
 - (g) to elect the Committee and its Chairman and other officers of the society excepting those whose appointment is given by the rules to the Committee ;
 - (h) to transact any other general business of the society.

Board of Directors.

23. Subject to the control of the general meeting, the entire management of the affairs shall vest in the Committee of Management, which shall consist of not less than five members including the Chairman. The Chairman who, except in the case of the first holder of the office, must have served the Committee for 12 months previously, shall be elected at the general meeting.

24. The Committee of Management shall have power to fill all vacancies occurring in the Committee between general meetings and to elect one of their body as Secretary and to appoint such salaried and non-salaried officers as may be thought necessary and from time to time to define the respective duties of such office-bearers and to fix the wages of paid officers.

25. The duties of the Committee of Management shall be as follows—

- (a) to meet as often as may be required ;
- (b) to inspect and direct the business of the society and in all things to act for the society ;
- (c) to determine what goods shall be ordered and the prices to be paid and charged for the same, to examine the invoices of goods, pay accounts and review all other transactions concerning the interests of the society ;

- (d) to see that the salesmen and other servants of the society perform their duties properly and that the shop stocks and properties are well kept and in good order
- (e) to take stock at least once in every half-year
- (f) to lay a statement of accounts before every half yearly general meeting
- (g) to send to the Registrar an annual return in the form prescribed by that officer
- (h) to keep a copy of the last return and balance sheet of the society together with the auditor's report hanging up in a conspicuous place at the registered office of the society

26 The general meeting may assign to the office bearers such remuneration as it thinks proper

27 A member of Committee shall vacate his office if he holds any other office or place of profit under the society or if he becomes bankrupt or insolvent or concerned in the profit of any contract with the society

28 The Chairman shall preside at all meetings of the society In his absence the members present shall elect another member to preside The Chairman or the President acting in his absence shall sign the minutes of the proceedings He shall have a casting vote besides his own vote as a member

29 The Committee shall from time to time make special arrangements regarding the verification of goods received with invoices

Conduct of Business

30 All goods shall be sold at reasonable market prices

31 Dealings shall be for cash All goods sold shall be paid on delivery or if the Committee so directs on order

In exceptional circumstances a member may be allowed credit in goods up to two thirds of the paid-up value of shares But such dues must be paid at least a fortnight before the accounts of the society are closed or within two months from the date the goods are delivered whichever is earlier

32 The general meeting may from time to time open branches at suitable centres and may fix the area within which each branch shall ordinarily operate and the general meeting shall, appoint local directors to carry on the business of such branches on behalf of the society. Every local Board of Directors shall subject to the control of the Board of Directors, exercise the same powers with regard to the work of the branch it represents as the Board of Directors. All documents executed by the local Directors with regard to the work of the branch society in the manner laid down in the by-laws shall be binding on the society.

33 Complaints regarding the quality, quantity or price of any goods or the conduct of any officers or servants of the society shall be made to the Committee who shall inquire into and decide upon them, subject to an appeal from such decision to an ordinary general meeting.

34 The Board of Directors may frame rules subject to the direction of the general meeting regarding the terms and conditions on which deposits shall be accepted and withdrawn and regarding the rates of interest for various kinds of deposits and the Board may make additions to, or alterations in, these rules from time to time.

Profits

35 The accounts of the society shall be closed half-yearly. When the accounts of the society are closed, 25 per cent of the net profits, after allowing for depreciation at the rate of 10 per cent on fixtures and $2\frac{1}{2}$ per cent on shops and other buildings, shall be placed to the Reserve Fund. The balance may be applied as follows—

- (a) Dividend may be paid at a rate which shall not exceed 9½ per cent on the amount actually paid on shares.
- (b) A rebate to the members of the society in proportion to the amount of the purchases during the period to which the profits relate may be allowed, but no member shall be allowed rebate who has purchased less than Rs 25 worth of goods.

- (c) A non member who has purchased more than Rs 25 worth of goods may be allowed rebate at half the rate granted to members
- (d) A bonus to employees may be paid and subject to the provisions of section 34 of the Act, the society may make contributions to any charitable purposes

30 Dividends not withdrawn within one calendar month after they become receivable shall be credited to the member's account as payments towards fresh shares, or, if he already holds the maximum allowable by the rules, as deposits

Reserve Fund

37 The reserve fund shall consist of—

- (a) twenty five per cent of the profits annually placed to the fund in accordance with rule
- (b) any sums allotted to it out of the profits or otherwise,
- (c) entrance fees after deduction of the preliminary expenses incurred in constituting the society,
- (d) the value of all shares forfeited to the society and lapsed dividends

38 The reserve fund shall belong to the society and be indivisible amongst the members. It shall ordinarily be invested in Government securities Post Office Savings Bank or in any co-operative institution approved by the Registrar or in any other manner laid down in section 32 of the Co-operative Societies Act

39 The reserve fund shall be available for any of the following purposes—

- (1) to cover any losses arising from any unforeseen circumstances, such drawings upon it being reimbursed to the fund from the next accruing profits,
- (2) to meet any call on the society which cannot be met otherwise, such payments being reimbursed to the fund when fresh collections are made,
- (3) to serve as security for any loans which the society has to contract

In the case of dissolution of the society the reserve fund shall be applied to such purposes as may be determined with the approval of the Registrar by the majority of the members

Miscellaneous.

40 Every share holder shall be supplied with a copy of the the by laws

Dissolution.

41 The society shall be wound up with the approval of the Registrar if three fourths of the members present at general meeting specially summoned to consider the question vote for it

Disputes.

42 Any disputes which cannot be decided by the general meeting or by arbitration shall be referred to the Registrar, whose decision shall be final

43 Any of these by laws may be altered or rescinded or new by-laws may be made at a general meeting held in accordance with the rules made by Government in this behalf and such amendment will come into force after it has been approved and registered by the Registrar

44 The society shall keep a copy of the Co operative Societies Act, 2 of 1912, of the rules made by Government under the Act and a copy of these by-laws open to inspection free of charge at all reasonable times at its registered office

45 All matters not specially provided for shall be decided according to the terms of the Co-operative Societies Act, 2 of 1912, and the rules framed under section 43 of that Act

The above are the by laws referred to in our application for registration dated

Signature of applicants

APPENDIX F.

The Growth of Co-operation in India.

GOVERNMENT OF INDIA.

Resolution No. 12-287-1.

Dated Simla, the 17th June 1914.

"If the system of Co-operation can be introduced and utilised to the full, I foresee a great and glorious future for the agricultural interests of this country."—His Majesty the King-Emperor, 13th December 1911.

Ten years ago there was nothing beyond a few scattered experiments to indicate the presence of the co-operative movement in India. To-day there are over 12,000 societies with nearly 600,000 members and with a working capital of over five crores of rupees, and co-operation has firmly established itself as a powerful factor in the material and moral welfare of the people. A stage, therefore, appears to have been reached at which an endeavour may suitably be made to review the manner in which this remarkable development has proceeded, and the main principles which have guided it in the past, and should guide it in the future. In this Resolution an attempt will be made to trace the growth of co-operation in India, to indicate the benefits—economic, social, and educational—which the movement, if wisely directed, may be expected to produce, as well as the dangers to be avoided; to describe the main features of the various types of society, to discuss a number of questions of administrative detail, to examine to what extent State aid has been and should be rendered, and, finally, to consider how far, in the every day work of administration, district officers should keep in touch with the movement and utilize this new element in the national life.

2. Economic co-operation is based on the fact that when men are joined together for a common object credit, which was denied to the individual, becomes accessible, and advantages beyond the reach of any

Co-operation—credit
and other.

member of the group working independently are secured. This principle finds its expression in two distinct methods of association, one of which underlies the system of Co-operative Credit, while the other is the foundation of Co-operative Purchase, Sale, Production and Insurance. In the former several persons combine to furnish a collective guarantee by which they are enabled to secure money at lower rates of interest than they could obtain individually. In the latter a similar combination is made in order to effect economies in the preparation or disposal of produce. The former method of co-operation is generally the simpler and more easily managed; it provides the primary requisites for progress, and it is in a sense the foundation of the other, both in India and in other countries.

To form a credit society in its simplest form all that is legally necessary is for ten or more persons to secure registration. The society on the joint security of its members borrows money, and the money so obtained is lent to such members as are in need of loans. When joint security is offered money can be borrowed by the society at a comparatively low rate of interest, and although the interest charged to members who borrow from the society is fixed at a slightly higher rate it still remains perceptibly lower than that charged in the open market. A society formed for the sale of produce would collect the produce at one place, convey it to market in the most economical manner and obtain better terms by selling to large dealers and not to middlemen. Similarly a society, formed for the purchase of seed would combine the contributions of its members, buy seed at wholesale prices and distribute it to the members at cheap rates.

3. Co-operative credit, as an organised system, had its origin in Germany about the middle of the last century. Its beginnings were of the humblest description. Two men, Raiffeisen and Schulze-Delitz, stated independently about the same time to work out a system of credit on co-operative lines, the former in the main for poor peasants, the latter for artisans and small tradesmen. For a long time progress was slow, but between 1880, and 1890

Origin in India
Act of 1904

the movement may be said to have established itself, and from that time forward there has been marked and continuous development. Co-operative credit has, for reasons which need not be detailed here, hitherto failed to gain more than a very small footing in Great Britain, but in Ireland, and in most of the principal countries of Europe, it has now obtained an established position as one of the chief elements in the agricultural and industrial welfare of the people. Proposals have from time to time been made, by Sir William Wedderburn and others, for the establishment in India of banks to supply capital to agriculturists and to free them from the indebtedness caused by usurious rates of interest but to solve the problem of agricultural indebtedness something more than the creation of cheap and unrestricted credit was required, and, although the possibility of extending the system of co-operative credit to this country had previously been considered, it was not until 1895, when Sir Frederick Nicholson of the Indian Civil Service submitted to the Madras Government a valuable and comprehensive report on the subject that a real beginning was made. In this report he described the system of co-operation in force in European countries and examined their applicability to Indian conditions. While it was under consideration, a volume entitled 'People's Banks for Northern India', was published by Mr Dupreux. ICS and few small experimental societies were instituted by Mr Dupreux and other officers in different parts of India. So long, however, as the transactions of these societies were governed by the complicated provisions of the Companies Act, it was impossible to expect much progress, and a Committee was therefore appointed by Lord Curzon in 1901, under the presidency of Sir Edward Law to report on the action necessary for the establishment of co-operative societies on a proper footing. The Committee had the benefit of the advice of Mr Henry Wolff the leading authority in England on the subject, and as a result of its recommendations a Bill was introduced in the Legislative Council by Sir Denzil Ibbetson and was subsequently passed as Act X of 1904.

4 Under the Act of 1904 a simplified form of procedure was prescribed for credit societies and their status was defined. Societies were divided

Act of 1912

into two classes—'rural' and 'urban,'—separate conditions being prescribed in the case of each class in regard to matters such as members' liability and the application of profits and the business procedure of societies was freed from the elaboration of the Companies Act. Certain duties were prescribed for societies and their members, and power was given to the Government to exempt them in certain particulars from the operations of the ordinary law. Registrars, with powers under the Act, were appointed in each province, and in two years 800 societies had sprung into existence. The number steadily increased from year to year, and before long the provisions of the law—which were necessarily of an experimental nature only—were found to be in some respects faulty, and in others inadequate. The distinction in treatment between rural and urban societies, for instance, was found in practice to be unnecessary. There was moreover, no formal recognition of joint or central societies formed of other societies, nor did the Act expressly cover any form of co-operation other than co-operative credit. To remedy these and other minor defects which experience had brought to light, a new Act was passed in 1912 which dealt with co-operation of all kinds, and it is by this Act (No 2 of 1912) that co-operation is now regulated in this country.

5. The number of societies (including those in the Native States of Mysore and Baroda) has now, according to the latest returns available, risen to 12,324 (of which all but 176 are credit societies) and the number of members to 573,536. There has been a brisk demand for the creation of new societies, and considerable pressure has been put on Registrars to register societies at a more rapid rate than is represented by these figures. They have been flooded with applications for enrolment, and, even where applications were not received, nothing would have been easier than to create new societies, as it were, by beat of drum. The principle on which they have acted in spreading the gospel of co-operation has been to make sure before accepting converts that the matter has been well considered and the new doctrine understood, as one good

society is, in the end, better than any number of unsuccessful ones. The failures that have occurred in the cases when this course was not followed, have fully justified the caution with which the numbers have been increased. It is sometimes urged that the movement only touches an infinitesimal proportion of the population, and that, if co-operation is materially to affect the condition of the masses, more rapid progress should be made. But it must be borne in mind that the benefits of the societies are by no means confined to registered members. If 600,000 persons are members, the numbers directly affected, including their families, can scarcely be less than 3 millions, and if we take also into account the general reduction of the rate of interest and similar benefits to outsiders which have followed the spread of the movement, it can fairly be claimed that co-operation has already brought relief to some six millions of people—a very gratifying and indeed phenomenal outcome of the work of ten years. It is true that there is still only one agricultural co-operative society in India for every 20,000 of the population engaged in agriculture, whereas in Italy, for instance, there are 18 and in Germany 52. But the movement in India is only at its beginning, and the progress made in the first stage has been unequalled in any other country. In Germany, the pioneer of co-operative credit, the initial difficulties were immense, and 30 societies represented the fruit of 30 years' effort, while even now, according to the best information available, the number of societies in Germany after another 30 years does not exceed 17,000. In Austria after ten years there were 15 societies and now, after some 60 years, about 12,000. In Russia there are said to be 14,000, in France 4,000, and in Japan 7,000. But, although such rapid progress has been made, the movement, fostered as it has been by the resourceful guidance of the Registrars, has developed naturally and on sound lines, and the aim kept steadily in view has been not the multiplication of societies but rather the restriction of the movement within safe bounds. In the future, now that the first stage has been passed, it is possible that, with the help of federation and increased unofficial supervision, the rate of progress may in places safely increase, but the caution and restraint shown in the past is in every way a matter for congratulation.

6 The aim of those who form themselves into societies is primarily economic. Their object is to obtain money or the other necessities of production at cheaper rates, or to sell their produce at higher prices than those which prevail in the market to which they would individually resort. If this object can be attained over a considerable portion of India, the result will be of immense economic value. It has, for instance, been calculated that in interest alone the agriculturists of India, by taking loans from co-operative credit societies instead of from the village money-lenders, are even now saving themselves from an absolutely unnecessary burden of at least 20 lakhs of rupees per annum, and there is no reason why in a few years this figure should not multiply itself several times over. The mere saving in interest charges is, however, a part only of the benefits received. With the progress of co-operation and with credit democratised money that has lain rusting in hoards has been produced and placed in deposit, money that would otherwise have lain idle has found a serviceable form of investment, capital that would otherwise have been inaccessible has come into the hands of the agriculturists, old debts have been paid off and old mortgages redeemed, cases being reported in which the debts and mortgages not of individuals only but of whole village have been cleared off. With freedom from debt and with access to capital on reasonable terms, the agriculturist is enabled to develop his means with better heart and increased resources while the production of hoarded money and its application to the development of the country, coupled with an improvement in the economic position of the people, must result in an increase in their purchasing power and in the expansion of external and internal trade.

7 In no direction, is co-operation more full of promise than in the improvement of agriculture. From the first it has enabled cultivators to grapple with the difficulties caused by bad finance and an undeveloped system of rural economy, but during the last two or three years it has begun to show how it can assist them in winning a better living from a reluctant soil and treacherous seasons.

In time of need, Government has never been backward in helping the peasant. Loans for the purchase of seed and cattle have been generously given; lenient treatment has hastened recovery from seasonal disasters; and by the greatest gift of all—irrigation—the liability to such disasters has been prevented over large areas. But more helpful than any of these gifts is the teaching which the Agricultural Department is setting before the people. The field however, is so wide, and the skilled workers so few, that mere departmental efforts can never suffice to bring home to every cultivator the benefits that agricultural science offers. It is here that co-operation has stepped in. It has, in some provinces, provided the means whereby, as each improved variety is perfected and made ready for use, seed can be conveyed from the Government farm to every village over large areas and can be multiplied a thousandfold; it has enabled the purity of the seed to be maintained, and the best price to be secured for the produce; it has placed within reach of the cultivator cheap manure and implements tested and approved by experts; it has supplied to cattle breeders bulls of superior strains for the improvement of the village herds; and it has provided the means by which useful information can be disseminated.

The association of co-operation with agricultural improvements may assume different forms. In one place the co-operative society may perform the functions of an agricultural association; in another agricultural societies or unions may have a separate existence, but may work in the closest touch with the co-operative movement. But wherever agriculture and co-operation have experienced the assistance which each can derive from association with the other, they are fast developing a truly organic connection and there can be little doubt that before many years this will be the case throughout India. It has indeed been stated by outside observers that the efforts of these two departments have made a deeper impression on the life of the people than any of the other measures which Government is engaged in promoting.

8. But these direct economic improvements are not the only benefit which co-operation is conferring on Educational value. the country. Co-operation has been, in the

widest sense of the term, education, both intellectual and moral. When men are associated for business purposes, they feel the need of education. There are tangible reasons for learning to keep accounts, to sign prom-notes, to read pass books and receipts, and knowledge of this kind must lessen the chances of fraud while members who are able to read simple co-operative literature will take a more intelligent interest in their society and in the progress of the movement. Illiteracy is a hindrance to the movement, and just as co-operation leads to a demand for literacy, so literacy encourages the demand for co-operation. The effect of co-operation, however, extends beyond this. It does more than merely provide cheap credit; it encourages thrift. The criterion for admission to a society is a man's character and not his wealth, and men, when brought together for their common weal and when pledging their common credit, have influenced each other's conduct and advanced each other's interests in ways previously undreamt of in this country. The fact that the members are ultimately responsible for the payment of the debts of each and every member, operates as a powerful check on expenditure on unproductive purposes greater than that absolutely required by public opinion, and marriage expenses have accordingly been curtailed. Drunkards and gamblers have been reformed or excluded from societies. Self-restraint, punctuality, straightforwardness, self-respect, discipline, contentment, and thrift have been encouraged. In some areas litigation has markedly decreased. In others the common funds have been used to start schools, to provide scholarships, to distribute quinine, to provide drinking wells, to clean streets. The impetus of co-operative credit has led on to saving banks, benefit funds and provision for the poor. Those who have first-hand knowledge of co-operative societies are emphatic in their appreciation of the change which the movement is making in the character of the people affected by it, and it is important to bear in mind that co-operation is not merely a device for obtaining cheap money, or for increasing the economic resources of members, but is also a potent educational influence and, as such, is deserving of the warmest support from those who have the welfare of the people at heart. The managing bodies of the societies have

frequently been entrusted with the arbitration of disputes and with other duties which belong to the traditional village panchayats, and there is some reason to think that the continuity of aim, and the solidarity of feeling inherent in the movement, may lead to a revival of the corporate village life which has been so weakened by the disintegrating influences of modern times.

9. In India, as in Europe, the greatest obstacle to economic progress has been the difficulty of obtaining capital at reasonable interest for peasant agriculture and for small industrial enterprises, and the foundation of the whole structure of co-operation, both in India and in Europe, has been the credit society. The provision of credit for large landowners is a marked feature of co-operation in some European countries, and there are no doubt openings in India, towards which the Registrars of several provinces have already been feeling their way, for organising the credit of the larger landed proprietors. But an organisation of this kind rests on an entirely different footing from that of the ordinary credit society, and it is unnecessary to refer to it further in this Resolution. The Indian Act of 1904 was admittedly intended to encourage small and simple credit societies for 'small and simple folk with simple needs' and these still constitute the vast majority of the societies which have since been instituted. To those not conversant with co-operative ideas the result may often appear trivial. The average number of members in a society in this country is 45 only, and the average working capital of a society does not exceed Rs 290, the actual figures in many societies being of course often far smaller than these. There are indeed societies the capital of which is counted in lakhs, but some of them have commenced from petty beginnings of twenty and thirty rupees, and the strength of the co-operative movement rests in a large number of small but strong societies. Some 600 credit societies are concerned with classes and industries other than agricultural, the proportion of such non-agricultural societies being largest in the United Provinces, Bombay and Mysore. These societies are mainly for the benefit of the poorer classes of artisans, weavers for the most part, but others, such as carpenters, blacksmiths,

shoemakers, etc., are also represented. Similar societies have been formed for clerks in offices, and they have lately been tried also in regiments in the Indian Army. The great bulk, however, of the twelve thousand credit societies in the country are for the benefit of the agricultural population, and the chief object held in view from the beginning has been to provide reasonable credit for small agriculturists, who represent the backbone of the Indian polity. The problem of agricultural credit has been looked on as more urgent than that of industrial credit, and the efforts of Government have been mainly devoted to the relief of the small agriculturist.

10. The small agriculturist has hitherto been dependent for his funds on the small money-lender. It cannot be expected that the small money-lender, who takes great risks and who has to make his living, can lend at a low rate of interest. He has in many instances made unfair use of his superior intelligence, speculating as he does in dishonest borrowers he insures himself against loss by making the honest borrower pay, and the evil traditions of past generations of insecurity have probably led to higher rates of interest being charged than are now reasonable. The extension of co-operative credit entails—and is meant to entail—the discouragement of direct dealings between the money-lenders and the peasant. So far therefore as the money-lender depends on money-lending for subsistence, he finds the extension of the movement inimical to his interests. He loses some of his customers, and to retain the rest he has to reduce his rates of interest. It is not surprising therefore that he should, in many instances, have placed obstacles in the way of co-operation and, in some cases, even organised combined opposition to it. Cases have indeed been known in which Government servants related to, or sympathetic with, the money-lending classes have in their official capacity obstructed the progress of co-operation, and any cases of this kind when brought to light and proved should be dealt with seriously. But although co-operation must necessarily interfere with the business of the small money-lender there is no reason why he too should not participate in its benefits. In the past he has fulfilled a

useful function in the rural economy of the country, and if he accommodates himself to circumstances he will continue to do so in the future. It is to be hoped that he will soon realise, as in many places he has already realised, not only that co-operation has come to stay and that it is useless to oppose it, but also that it has a useful and not unremunerative place in its constitution for all the old local banking agencies. The loan business of co-operative institutions is restricted to particular channels and protected by peculiar safeguards. It also courts full publicity and should therefore prove attractive to money lenders and others who have funds to invest. It is always open to the village banker to invest his funds either in the village societies or in one or other of the various central agencies, and these will afford him a scope for investment much less speculative than the traditional banking business of the village while the increased wealth of the villagers will, in the end, open up many opportunities for the profitable utilization of his capital.

11. The object of co-operation is to obtain reasonable credit from reasonable creditors. This is not necessarily cheap credit and the rates of interest which represent reasonable credit vary very widely in different parts of India. A rate which would be considered extraordinarily low in Upper Burma would often be looked on as extortionate in parts of Gujerat and Madras, and it is no part of the functions of co-operation to reduce too rapidly rates of interest to a uniformly low level throughout India. No doubt, as the movement strengthens, the rates of interest will everywhere tend to fall and the process is taking place before our eyes. But a debtor who has been accustomed to high rates can only be trained to thrift by gradual relief, and the sudden opening up of facile credit has too often led to his ruin. It is very desirable that societies should be financed to a large extent by local capital, and deposits from members or from the local public cannot be expected at rates markedly lower than are obtainable in other forms of investment in the neighbourhood. If, moreover, money is lent to members of societies at rates much below those prevailing in the area affected, there is the danger that money borrowed by mem-

bers will be lent out again at higher interest. It is accordingly found that credit is afforded by societies at very different rates in different parts of India, but so long as the credit in its relation to local conditions is reasonable, it cannot be pronounced excessive.

12 The principal object of the credit societies being, then, to provide reasonable credit for small agriculturists and small artisans there are various systems under which societies can be organised to attain this object. Speaking broadly there are two main lines on which societies can be constituted, and these are known by the names of their originators, Raiffeisen and Schulze-Dehitzsch.

Types of societies—
Raiffeisen and Schulze-Dehitzsch

The Raiffeisen societies are mainly for agriculturists and are often spoken of as 'rural banks,' while the Schulze-Dehitzsch societies are primarily for artisans and are described as 'people's banks.' There are many points, both of principle and of detail, in which the two classes differ, but three only need be considered here, (i) the area of operations, (ii) the liability of members, and (iii) the treatment of profits. In the rural or Raiffeisen banks members are selected from a very limited area, their liability is nearly always unlimited, there are usually no shares (or if there are shares their value is very small), and there is no division of profits. In the people's or Schulze-Dehitzsch banks, on the other hand, the operations of the society may cover an extended area, liability is usually limited, and the members have shares and receive fairly high dividends. These are the two main types of society known in Europe, but there are many variations from these types both in Europe and elsewhere. Among these may be mentioned the 'people's banks' of Italy organised by M. Luzzatti somewhat on the lines of the Schulze-Dehitzsch societies but with limited liability in all cases and with smaller shares. In India, where societies have been started primarily for agricultural needs, they have, for the most part, conformed to the Raiffeisen type, but European models have not been slavishly copied, and in a new soil, and with new conditions, there has been no hesitation in departing from recognized types, uniformity has not been attempted and one of the most marked features of

the Indian system is its elasticity. By frequent conferences among themselves the Registrars have kept in touch with the essential principles of co-operation, and, so long as these principles are maintained, there can be no objection in adopting a considerable diversity of types.

13. As credit, which is denied to the individual, becomes accessible to the society because the joint security of all its members is offered, each member must be responsible for every other member and this in fact and not merely in name. They must therefore be personally acquainted with one another and be in a position to exercise mutual control in their transactions with the society. It is true there must be no such artificial limitation in membership as would lead to the society becoming a close corporation, but there must be such a limitation as will ensure that the society is based on the principle of mutual responsibility. For this reason it has been found necessary, as a rule, to require that all the members of a society shall be residents of the same village. It is a sound general rule that there should be only one village in a society and only one society in a village. But to this there are exceptions. Where, for instance, a group of villages can conveniently form a co-operative unit they may without objection be served by one co-operative society. Where persons scattered over large areas are for any special reason so thoroughly in touch with one another that they are able and willing to be jointly responsible, the condition of propinquity is not absolute, and the law accordingly allows that members of the same tribe, class, caste or occupation, even if not resident in the same village or group of villages, may become members of the same society. Similarly, it is permissible to have more societies than one in a single village in cases where a village is so large that all the residents are not mutually acquainted, or where a village is so divided from any cause that one set of residents could not be expected to be jointly responsible for another. But the essential principle remains that societies should ordinarily consist of members so closely in touch with one another that they are willing to be, and can be, both in name and in fact, jointly responsible.

It is for a similar reason that the formation of societies in which one or two men of means have associated themselves with a number of poor and ignorant members has often been deprecated. In such cases there is the danger that the bulk of the members will have no common interest and feel no mutual responsibility. So too, where there are borrowers and lenders in the same society, a conflict of interests may easily arise and, for this reason, societies of poor agriculturists will often refuse to allow the local money-lenders to be associated with them. Where, however, the motives of the monied applicant for membership are not open to suspicion, and where it is beyond doubt that he desires to assist the society by actual participation in its work and that he has identified himself with the interests of the members, there can be no objection whatever to his admission. It may also sometimes be advisable for different classes of artisans who need credit at different seasons, to join in one society and so supplement each other's wants. But it is a sound general principle that the members of a society should not only come from a restricted area, but should also represent a community of interest, and it is, as a rule, better that outside helpers should lend or deposit rather than purchase shares or lend their names as members.

14 In the absence of special orders, passed by the Local Government under the Act, the liability of the members of an agricultural credit society in India must by law be unlimited, and, as a matter of fact, this form of liability prevails in practically all such societies in the country. Even among non agricultural societies, where limited liability is permitted by law, about half the number are on an unlimited basis, and experience has shown that unlimited liability constitutes, as a rule, the only means by which individually poor people with small security to offer can obtain money on reasonable terms. It was at first very doubtful whether the idea of unlimited liability would be accepted by the people, and many experienced persons anticipated insuperable difficulties on this ground alone. The instinct of association, however, is familiar to the Indian mind, and the principle of unlimited liability has

been accepted without demur. Unlimited liability is, indeed, better understood in the villages than limited liability, and for rural credit it constitutes the main basis of co-operation in this country. In joint or central societies, of which one of the members is a registered co-operative society, limited liability has been laid down by law as the usual rule, while in the case of urban banks, although a choice is allowed, this form of liability is suitable as there is usually less cohesion among the members and more business faculty.

15. The holding of shares and division of profits are contrary to strict Raiffeisen principles. Shares are usually associated with profit-making concerns, and one of their chief purposes is to limit the liability of members ; while profit-sharing naturally leads to profit-seeking. Consequently, the policy with regard to co-operation in this country, which is mainly based on Raiffeisen principles, has hitherto discouraged both the holding of shares and the division of profits. But as experience has shown, both in India and in Europe, that societies of too austere a type do not always succeed in attracting members, it has been found necessary, under proper precautions, to depart from the Raiffeisen traditions, and in Madras, for example, societies are based largely on share capital, while a modified system of shares and dividends has been adopted in the Punjab, in the United Provinces, and in Burma. This system is one which was devised to a large extent by the peasants of one of the Punjab districts, and it does not conform strictly to that of any of the types of society known in Europe. Under this system, as practised in the Punjab, each rural society has a share capital which the members subscribe in instalments spread over ten years, members who join the society after the first year being required to pay up such instalments as they would have paid had they joined at the beginning. Until recently members could withdraw their shares after the bank had been in existence for ten years, but a new bye-law has now been introduced making all shares subscribed in future non-returnable. The profit earned on a share is not distributed, but, at the end of ten years, the accumulated profit is, after deducting one quarter for reserve, added

to the value of the share, and on the increased share thus formed, a dividend will thereafter be paid. After ten years a society will thus have acquired a capital composed of the shares subscribed together with the profit earned. To this capital will be added each year at least one quarter of the annual profits. The ordinary type of agricultural society in the United Provinces and Burma is now based on somewhat similar lines, and the success attained by co-operative credit in provinces which have introduced shares and a division of profits makes it necessary to adopt a somewhat less rigid attitude towards these methods than has hitherto been the case. There can be no question that it should be one of the first object of a society to form a capital of its own so as to be, so far as is possible, independent of outside assistance. Deposits—even those of members—are liable to become a source of danger in times of financial stress, and it is clear that the more a society employs money of its own, which cannot be withdrawn, and the less it has to depend on the money of others and on money which can be withdrawn, the stronger will be its position at a time of economic strain. Provided, therefore, that shares do not imply any limitation of the liability of members they undoubtedly form together with the reserve fund, a valuable part of the assets of a society. They also offer an incentive to thrift and may very well form a provision against old age or misfortune. Division of profits is a matter which is more open to objection, but, if there be shares, a reasonable dividend may without objection be paid, and it is not altogether logical to refuse a dividend on the shares of members, while allowing them interest on deposits. Rather, the member who puts his money permanently with the society would seem to be more deserving of a reasonable return on it than the member who merely puts it in for a time. The general conclusion appears to be that, in judging whether shares and a division of profits are advisable or not, it is necessary to consider the object for which they are introduced. If the object is the personal gain of the members, or of some of them, both measures are objectionable. But if the object is to increase the permanent resources of the society, and to offer only a moderate incentive to investment, both appear to be legitimate especially when

it is remembered that efficient legislative safeguards exist to prevent abuses. When a share system accompanied by a division of profits has been introduced, the local Government has always the power to check undue profit-making by limiting the number of shares which can be held by a member as well as by limiting the amount of dividend which can be paid. But societies so constituted require to be carefully watched, as it is above all things necessary to ensure that large dividends are not paid and that the mutual benefit of members, which is the primary object of co-operation is the object kept steadily in view.

16 So, too, as regards the class of security to be taken from borrowers, the main principles underlying co-operative credit, are the full mutual responsibility of the members and the profitable employment by them of the money they borrow. In all unlimited societies the whole property of the members is ultimately liable for the needs of the society. The security, however, both of the society against its members, and of outsiders against the society, is primarily the character of the members and only in a secondary degree their personal or landed property. A loan to a member is sometimes made on the borrower's personal security only, but it would appear to be more common to demand one or two societies. The loan of money by societies with unlimited liability on the security of movable property is discouraged by the law, and the local Government may prohibit or restrict the lending of money by a society on the mortgage of immovable property. In practice it is rare to find moveables taken in security, and mortgages cover a tenth only of the loans given out. In provinces where there are records of rights in land, the amount of each man's property, and the encumbrances on it, are easily ascertained, so that specific mortgages are less necessary, while in some areas the credit obtainable on mortgage from the outside market is already as cheap as can be obtained from co-operative societies. Where, as is usually the case the loan secured by mortgage is for a long term, there are objections to locking up capital in a form which is not readily available. There is, however, no absolute rule against mortgages, and in some provinces, such as Madras and Burma, where land

has always been pledged, this form of security is frequently resorted to, and the fact that his property is mortgaged serves to emphasize the exclusive liability of a member to his society. Mortgages are useful in areas under new colonization where the borrower has little or no security beyond his land to offer, and they are often employed to release a member from a previous onerous mortgage by the substitution of another to the society on milder terms.

17 A question is in this connection sometimes raised should a member be admitted to a society who is not free from outside debts? The only answer that experience admits of being given is that until a member has been freed from outside debts, a society is not performing its full functions, but it is a counsel of perfection to expect that no one shall be admitted as a member unless and until his outside debts have been paid off. There are of course, extreme cases in which a man is so indebted that there is no hope of his debts ever being cleared off, and in such a case the proper course is to refuse him admission to the society. But there are many cases including some that at first sight may appear hopeless in which the societies can do much. The panchayats in charge of societies have in many cases undertaken the part of conciliators and, by offering immediate payment, have secured considerable remissions of claims from creditors. A full disclosure of existing debts is a necessary preliminary to admission and there is sometimes in practice considerable difficulty in ascertaining the full extent of a member's unsecured debts but proposals have been put forward for investing the societies with power to call on creditors to file claims by a fixed date on pain of lapse, and if these should be approved societies will be materially strengthened in dealing with the outstanding debts of their members. It is indeed to co-operation more than to any other measures, that recourse must now be had in the attempt to solve the difficult problem of rural indebtedness in this country, and co-operation has advantages which most of the schemes put forward with this object do not possess. It is applicable not only to the classes which possess land but also to others. It makes it possible

to reduce outstanding debt without extravagant expenditure of public money. And—what is most important of all—it ensures that the debtor, when cleared of debt, shall be put in a way of life which discourages debt and the thriftlessness in the future.

18 Another important matter regarding which doubt has at times been expressed is whether it is justifiable for a society to lend to its members for other than productive purposes. This was considered when legislation was undertaken, and Government has deliberately refrained from placing any restrictions on the objects for which loans are granted. Apart from the fact that it would be impossible to devise any complete check on the expenditure of a loan, or to say from what sources the money spent on any particular object was derived, it would be suicidal for societies to place any absolute prohibition on the grant of loans for unproductive purposes. The society occupies the place previously held by the money-lender, and it must give loans for all purposes for which loans are essential, including any social expenditure required by public opinion, and if it failed to do this, it would only encourage its members to resort to money lenders. It has been found by experience that members being jointly and severally responsible for one another will take care that the amount spent on social requirements is not in excess of that prescribed by public opinion in the village, and the dictates of the society in such matters are in most cases cheerfully accepted by the borrower. It has indeed been said, and with much truth, that by lending money for ceremonial purposes societies 'close one of the high roads to insolvency'. While, however, loans are granted for non-productive objects it is an almost universal practice for societies to insist in giving a loan that they should be informed of the object for which it is required in order that they may satisfy themselves as to its necessity, and, as a matter of fact, comparatively few loans are taken for unproductive purposes. It is also necessary that when a loan is granted for a particular purpose the society satisfy itself that the money has actually been applied to the object for which it was borrowed.

19. The extent to which societies receive or should receive direct support, financial or administrative from Government is a matter which is considered below. There are, however, certain methods by which co-operation may legitimately receive indirect assistance. Just as the whole organization has been exempted from the detailed formalities of the ordinary commercial law of Companies, so too it has been found advisable to allow of the remission in certain cases of such charges as stamp duties, income-tax and registration fees. The working of societies is further facilitated by allowing the despatch of their money in some instances through the Government treasury; Government may help by subscribing to co-operative periodicals; it may go further and allow to societies as it does in the Act, a prior claim on the debtor's property; or may exempt shares from attachment. But while Government has been anxious to remove unnecessary obstacles from the path of co-operation, it has been no part of its policy to render the movement dependent for its progress on Government tutelage. When, for instance, it is asked—as it frequently has been asked by many earnest supporters of the cause—to allow the societies a special summary procedure for the recovery of their debts in place of the slow and expensive methods of the courts it has withheld its sanction. Although defaults through fraud are exceedingly rare, it would be mistaken kindness to confer upon societies arbitrary powers of recovery, and if in the absence of such power a society cannot by means of the joint security given and its own moral authority, collect its debts, the failure is due to a careless selection of members in the first instance or to lax management. Whether or not special methods might be justified in the case of recoveries at the time of liquidation, or when suits are brought by central banks against their constituent societies, there can be little doubt that if individual societies could employ such methods in dealing with their members, they would be encouraged to become careless in administration, and to neglect the vital principle that admission should be refused to those who cannot be relied upon to fulfil their obligations.

20 The funds of societies are derived from various sources and the proportions in which these sources, Funds of societies are tapped vary in different parts of India. For agricultural societies generally the four main sources of income are the share capital, the deposits of members the loans and deposits from non members, and loans and deposits from other societies, and the percentage of the total working capital represented by each of these heads of income is that indicated in the margin. Leaving out of account the money received from other societies (that is to say in the main from the central societies described in paragraph 2nd below) it will be observed that members themselves contribute in the form of shares, loans and deposits about twice as much as outsiders. As indicating the stimulation of thrift this result is, from the co-operative point of view, satisfactory, and it is in some respects better that members should raise their own funds. On the other hand it is a satisfactory test of the progress of a society if it can show that it has enlisted the confidence of the public. The essential point however, is that funds should be received in such a form that the society will receive adequate warning before they are withdrawn and from this point of view there are advantages in receiving money in form of shares. Similarly as between deposits, there is an obvious advantage in long term deposits as opposed to those received on short terms or on current account. There is no complete information regarding the ordinary length of term for which loans are given to members by societies in different parts of India, and it would be convenient if in future Registrars would include such data as are available on this subject in their reports. Generally speaking, however, loans whether made in the first instance for short terms only, or for long periods, are usually repayable after the time of harvest. And just as loans are ordinarily repayable after a harvest, so too the demand for loans is for the most part concentrated into a period corresponding with the commencement of the sowings for the chief harvest of the year, and it is necessary that the system on which deposits are received should ac-

commodate itself so far as possible to these circumstances. To a certain extent this can be done by utilising the credit available from central societies, but it is also necessary that individual societies should provide, so far as possible, that funds may be available when they are most in demand by regulating the ordinary length of term for which deposits are received.

21. The ability and willingness on the part of the members of credit societies to repay loans is a prime

Repayment.

factor in the establishment of public confidence in the co-operative movement. Forethought, thrift and business methods are not characteristics of the classes for whose benefit co-operation is intended, and in the early years of the movement it would not have been surprising had the members of credit societies shown shortcomings in the matter of the repayment of their loans. On the whole, however, judging by the results repayment seems to have been satisfactory, delay being due rather to want of the business habit and to the difficulty experienced by Registrars in laying down a definite system of instalments for repayment than to any desire to shirk obligations. Now that experience has been gained it would be well if, so far as is possible, a definite system of repayments were prescribed. Uncertainty in this matter may lead to carelessness on the part of borrowers, to slackness and partiality in management, and so to the 'eternalization' of loans.

22. As a test of financial stability the importance of the re-

Reserve fund.

serve can scarcely be over estimated. It supplies a source of income which may be drawn upon in lean years; it fortifies outside confidence and so attracts deposits; it protects members from money payments under their unlimited liability; it cheapens credit; and, perhaps, most important of all, it binds members together. The law contemplates that at least one fourth of the profits shall be credited to the reserve fund, but it should by no means be considered necessary or desirable, even in share societies, to restrict the income of the fund to this figure. Stated in the order of their importance profits are available for three main objects, the building up of a reserve, the reduction of the interest demanded

from borrowers, and the distribution of dividends to members. Regarding the manner in which the reserve should be employed there has, however, been some difference of opinion. Some hold that the reserve should always be separately invested in a central bank or other outside institution, and that unless this is done it is impossible to obtain the additional outside confidence which it is one of the functions of the reserve to secure. Others contend that so long as a higher rate of interest can be obtained by lending it to members, it is better business to utilize the reserve in the ordinary work of the society, and where, as is the case in some provinces, the margin of interest is large and the reserve fund grows rapidly, the use of the reserve fund in this way enables the society to dispense with outside loans and deposits. In Madras and the Central Provinces the reserve is usually invested separately, while in the other large provinces it is freely used for the ordinary business of the societies. There can be little doubt that though in the earlier stages when working capital is small, the reserve may fairly be used to supplement the working capital, it should be invested when any considerable amount has been accumulated and efforts should be made, as the working capital increases, to conform by degrees more closely to this practice. The agricultural societies in India now possess a reserve of 10 lakhs or $3\frac{1}{2}$ per cent. of the working capital, but no information is available to show in each province how much of this is separately invested, or what portion of the amount set aside as reserve may have been excluded from the above figure on account of its employment in the ordinary business of the societies. It may be remarked that in the German Raiffeisen banks the reserve constitutes $2\frac{1}{2}$, and in the Schulze-Delitzsch banks $6\frac{1}{2}$ per cent. of the working capital.

23. As societies increase in number it has been found advisable in India, as in Europe, to group them together for purposes both of control and of finance. By federating themselves under a joint central institution, societies provide themselves with an excellent agency for mutual inspection, and it is a mistake to suppose that inspection by such central agencies, even when no financial control is invol-

Central Societies.

ved, in any way impairs the independence of the societies. It must, moreover, be recognised that just as members of an individual society obtain increased confidence and credit by mutual control, so too societies are able by combining with one another to obtain a similar increase of confidence and credit. These combinations of societies are classed in the published returns under the generic name of central societies. But they are not constituted on uniform lines throughout the country. Sometimes the combination is for no other purpose than the inspection and extension of the societies, and in such cases it is properly called a Union. Such a Union may have no connection with finance beyond the provision of information to a financing body, or it may as in Madras, the Central Provinces and Burma, so far extend its functions as to guarantee the security of the societies which constitute it. In some areas, notably in Bihar, the United Provinces and Bengal, the Union both inspects and finances its constituent societies and is then spoken of as a Banking Union. Or again the central institution may finance only without inspecting, and such a body constitutes a central bank in the more restricted sense of the term. There is no uniform organisation for these financing bodies, as the societies which they support are not uniformly spread over the country ; but there is a tendency to group the societies of a tahsil, taluk, sub-division or district under a central financing institution, known either as a central or a district bank. It is a matter of some importance to recognise the right moment in the development of co-operation at which one of these central agencies should be established. A society cannot attain its full measure of usefulness until it is federated with, and assisted in some way by some central agency, but if central banks be started prematurely, they are apt to become mere forcing agencies for the artificial creation of affiliated societies. In India the structure has been built upwards from below, and for this reason it has been found advisable to discourage the formation of scattered societies at long distances from one another and to concentrate the movement, allowing it as much as possible to expand from centres in which it has found a congenial soil. It is gratifying to know that as a result of this policy there are

already whole districts in India where there is one co-operative society for every three or four villages

The formation of central societies was not contemplated in the Act of 1904. It was supposed that the capital for rural credit societies would largely be supplied through the agency of town societies, and even when the central system was started, it was the practice in some areas to treat the constituent societies as branches of the central society rather than as independent though affiliated units. The status of central societies, has however, been fully recognised and provided for in the Act of 1912. These institutions are sometimes constituted with societies only as members but in many cases individuals also, and in some cases individuals alone, are admitted to membership. They are treated as co-operative societies under the law, but on a basis of limited liability and about half the individual societies in India are now shareholders in central banks, although assistance is also given by some banks to societies which are not shareholders. In some areas it has been advisable to define the liability of the constituent societies by limiting it to some multiple of their shares, and it would possibly be an advantage if this or some similar plan were adopted generally. It would also probably be well if local Governments were at the present stage, to avail themselves of the permission given by the law to limit the rate of dividend in the case of central societies, so as to prevent any tendency on the part of such banks to subordinate the interests of the constituent societies to their own. It may be objected that societies are at present unduly dependent on these central agencies for their funds, but the system has its advantages. The administration of the central societies, being more on the lines of joint stock business, requires expert management and they have usually opened a connection with outside joint stock institutions by means of deposits or cash accounts. They are themselves largely dependent for funds on shares and debentures, and are thus in a position to provide the individual societies with a fair proportion of funds for long-term loans as well as to allow current credits for current wants. The ideal to be aimed at is that rural societies should raise locally what capital they ordinarily require

and that central banks should make good any deficiency in the supply of local capital. A time no doubt will come when local capital will be the principal source from which funds are derived, but at present the main function of the central banks is to enable individual societies to obtain and consequently to lend out money on easier terms than are available in the open market, and it is in this respect that they are able to give to the societies a marked advantage over the local money-lenders. Under the system of village finance hitherto prevalent in India, the village money-lender has almost always been dependent on his own resources only, and has dealt with a limited clientele. Apart, therefore, from all other considerations the rates of interest which he charges are considerably higher than those at which a society acting in combination with other societies and working in touch with the general money market of the country can profitably lend money. By bringing the borrower into touch with the outside money market, central societies are fulfilling a new and important function and they provide also the machinery by which the excesses and deficiencies of their constituent societies can be balanced.

24. In themselves however, the central banks cannot completely fulfil this function. Their range is necessarily limited, and they are subject only in a less degree than the individual societies to vicissitudes of season and fluctuations in the demand for money. They in their turn require further agencies from which they can obtain money in the busy months and through which they can utilize it in the slack season. It is possible to some extent to obtain the necessary help by means of loans from or cash credits with large joint stock banks, but by a combination on co-operative principles among the central banks themselves an additional advantage in the way of increased credit is secured. It has, therefore in several provinces been found necessary to establish banks dealing with an area larger than that covered by the ordinary central bank. In Burma, the business of one of the central banks is so considerable as practically to cover the whole province and to constitute it a provincial institution. Elsewhere, as in Bombay and the Central Provinces special Provincial Banks have been organised

and the establishment of similar institutions in other provinces is probably only a matter of time. The Bombay Bank, which was started in 1911 by a number of prominent men of business in Bombay, may issue shares to the value of 7 lakhs in the first instance. With this fund as a basis of credit it may issue debentures carrying interest at the rate of four per cent per annum, to an amount not exceeding three times the paid up capital and interest at this rate has been guaranteed by the Government of Bombay. The bank lends to co-operative societies only and loans are made to societies direct, more especially in connection with the development of sugar cultivation on the Nira Canal. The Provincial Bank in the Central Provinces was established in 1912 without any official guarantee, and is an institution dealing with central banks only. It has a capital of six lakhs and should prove a useful link between the ordinary commercial banks and the chain of co-operative banks in the Central Provinces, though it has, hitherto, been unsuccessful in raising locally its own capital. But although the operations of banks of this kind are confined to a single province, it is obviously opposed to the best interests of the movement that they should compete in attracting deposits, and Registrars might usefully arrange not only that there may be no overlapping in this respect, but also that the excess funds of one bank may be available for use by another. The responsibilities introduced by the addition to the co-operative organisation of central and provincial banks are of a serious character. To supervise the relations of such institutions with the money market on the one hand and with their constituent societies on the other is a task which requires a considerable degree of technical skill and the administration of the whole co-operative movement in the stages above that of the individual society is a matter which must in the immediate future engage the serious attention of Government and of the people.

25 The establishment of these central agencies even in the lower grades has introduced a new business element into the movement, and the administration of co-operative credit must in future present many more difficulties and complexities than in the past. Hitherto the

ordinary staff, both official and non-official, has been sufficient for the purposes of inspection and audit, but the question how far special training and expert assistance are required to deal with the larger central institutions and the problems they involve will shortly have to be faced. It is already necessary in the case of some of these institutions to entrust the audit to outside expert agency, but in the main the audit and inspection of societies is carried out by a staff entertained for the purpose either by Government or by the central agencies themselves. In most of the agricultural societies, the local administration is entirely or almost entirely gratuitous; accounts are ordinarily of a very primitive character, and cases have indeed been known where, in the absence of literate assistance on the spot, accounts have been prepared by the inspecting staff. Even in the less primitive associations the duties of inspection and audit are not regularly differentiated, and both of these duties have usually to be combined with the task of answering enquiries from outside and extending knowledge of the principles of co-operation. The staff is at present a small one—from 200 to 300 in all—but its duties are of great and increasing importance, as it is upon close inspection and trustworthy audit that the success of co-operation must largely depend.

26. The above considerations, though intended primarily to apply to credit societies, are largely applicable to other forms of co-operation. Societies other than credit societies were first formally recognised by the Act of 1912, and there has not yet been time for any great development of this form of co-operation. According to the latest data, there are now in India some 170 non-credit societies, of which about half are agricultural in character, and they have been formed in order to secure for the humbler classes of the community those advantages in industry and agriculture which the masters of the capital derive from the organization of labour, the use of costly machinery, and the economies of business when carried out on a large scale. The management of such societies, dealing as they do with sale and purchase of articles and the insurance of animals and produce, involves a class of problems far more complex and

difficult than those which arise in ordinary agricultural credit. Their ultimate importance to the country may be immense, possibly greater even than that of credit institutions, but at present they are in their infancy. They are a necessary corollary to improved credit, but credit is the first essential and until a system of credit has been firmly established in a province, it would be dangerous to encourage too rapid development on other lines. It has indeed been suggested that the establishment of such societies should always be preceded by some kind of agricultural or industrial survey of the economic needs of the people, and the suggestion is worthy of careful consideration. The application to agriculture of this form of co-operation is at present almost entirely confined to Burma, where societies have been started for the production and sale of rice and other crops, or for the insurance of cattle. The latter class of enterprise is one which is attended with special difficulties owing to the absence of reliable data regarding cattle mortality on which the premia can be calculated, and to very limited extent to which veterinary assistance is available and it has been recognised in Burma that in any system of cattle insurance there must also be some central organisation and means for re-insurance in order that local societies may not be ruined by local calamities. In the industrial sphere there has been somewhat greater scope for co-operative societies other than those framed for the improvement of credit, and most of these are societies for the purchase or for the purchase and sale of articles. As in the case of credit, it would appear that the most promising field for industrial co-operation lies in the improvement of the condition of the weaver community, and in some provinces a beginning has been made by establishing societies of handloom weavers who, by joining together, are able to purchase their yarn and to sell their cloth at more favourable rates than are available to an individual workman dealing with a middleman. Other enterprises have, however, been started in connection with the improvement of sugar production and of milk, the supply of stores and so forth, and the institution of building societies has been a special feature of the co-operative movement in Mysore. In all these

directions the people are still feeling their way, and operation of the kind is still in an experimental stage. There are, however, two principles which may be laid down as the result of the experience hitherto gained. In the first place it is desirable that the management of each class of work should be kept distinct, either by the establishment of separate societies or, if that is not feasible, by the appointment of separate committees for each branch of work, separate accounts and separate annual balance sheets being prepared and presented before being incorporated in the general returns of the society. Secondly, although these societies are meant primarily for the benefit of their own members, it is sometimes advisable to allow non-members to deal with the society, and there are indeed several cases where, without an outside clientele, the operations of the society would be so restricted that it could not have been started with any hope of success. Where, however, a society includes non-members among its customers, it is always open to it to offer more favourable terms to its own members.

27 The relations of Government to the co-operative movement have been criticised from two opposite points of view.

Relations of Government to the movement

On the one hand, there are some who contend that the movement, beneficent as it is, is essentially one for the people to work out on their own lines and that Government interference at any stage is uncalled for. Whatever limitations, however, may be suitable as regards the assistance of Government in European countries (and in no country is the movement entirely independent of Government aid), it is certain that in India without initiative and help from Government co-operation would still be unknown. Government alone was in a position to supply the knowledge and organization necessary to start the work, and Government alone is able by its association with the movement to create the outside confidence necessary to give it stability. Registrars are not, and are not intended to be, merely registering officers; they are also expected to provide supervision, assistance, counsel, and control. It is not to be imagined that societies will become perfect models of co-operation on formation and it is necessary

that Government, through its own and the societies staff, should continue their co-operative education long after they are registered. Unless a society is co-operative in fact as well as in name—and it can only be so if all its members understand the main principles—it is a fraud on its members and on the public. The fact too that societies though primarily self-contained and self-governed, are subject to supervision by Government officers, has an important effect in attracting public money on official supervision. Lastly, the co-operative movement by bringing the officers of Government into close touch with the people in economic matters, provides opportunities for developing those closer relations in other respects which it is so desirable to foster.

But just as there are some critics who deprecate Government assistance, so too there are others both non-official and official who plead for a far greater degree of Government intervention, than has hitherto been permitted. They urge that in order to touch more than the fringe of the population, a far more rapid rate of progress is called for, and that unless the Government staff be largely increased, and unless active measures be taken by Government to propagate the movement, its effect must be small and its progress slow. This too represents a policy which Government has not felt itself at liberty to adopt. Not only is it the case that work done by a large centralized department tends to become mechanical and listless, but the movement must in its essence be a popular one and nothing should be done to weaken the feeling among co-operators that it is based upon self-reliance and independence. Government, therefore, in the best interests of the movement, must not allow co-operation in this country to become an official concern managed by State establishments.

28 The result is that Government has to steer a middle course, and this has been the policy adopted. Financial aid—control and audit both as regards supervision and financial aid

So far as financial aid is concerned, there has been intervention on the part of Government, but it has been of the slightest possible character. When co-operation was initiated ten years ago Government was urged to subsidize the new societies liberally

and its apparent parsimony was criticized. But the evils excessive liberality were fortunately foreseen and the restriction of State aid was due not to niggardliness but to the fact that in other countries experience had shown that unrestricted assistance was a dangerous and might be a fatal gift. It was decided, however, as in the early stages there was no immediate prospect of bringing societies into contact with the general money market, that, subject to equivalent contributions from the members, loans might be given within certain limits. But except in one or two provinces, where special reasons for help existed, Registrars have properly discouraged any undue reliance on such assistance, as the proportion of the total capital of societies represented Government loans now scarcely exceeds 3 per cent. Without the loans many societies would not have come into existence and fostering infant societies they have fulfilled a useful purpose, but events have fully proved the wisdom of this policy of avoiding excessive State aid and it is to the adoption of that policy that the inherent strength of the movement is largely due.

So too, as regards the difficult question of control and audit it is recognised that these duties cannot be left entirely to the private agency of unions and central banks. It is desirable that this non-official agency should be utilised as much as possible and that purely departmental routine in the work of audit and control should be avoided, but the success of the movement would be endangered if this principle were carried out to an extreme. Without some degree of Government supervision Registrars would lose touch with the societies, and the outside public, who depend largely on the information possessed by Registrars and who value the scrutiny carried out by those on whom they rely, would lose that confidence in the financial position of the societies which it is so essential to maintain. Had this safeguard been neglected, it is doubtful whether societies would have escaped—as fortunately they have almost everywhere escaped—the evil effects of the recent banking crisis in India, and the circumstances attending that crisis indicate that any arrangement which would dispense altogether with Government supervision is impracticable. The audit, moreover, of a group of soci-

ties by a central society, whose own credit is bound up with that of the societies dependent on it, will not be accepted by the public as equivalent in value to an audit by an outside agency. It is necessary, therefore, that societies should be controlled and audited by a reliable staff which can keep the Registrar informed of the financial position of the societies, and it is also necessary that the agency employed should be such as will ensure the confidence of the money-lending public. The staff need not be paid by Government, and it is indeed as a rule better that societies should themselves be responsible for the payment of the controlling and auditing staff than that they should be indebted to Government for its services; but whether the staff is paid by the societies or not, it is ordinarily advisable that it should be appointed subject to the approval of the Registrars, and that it should remain under their general control. If by this or any other means the two main conditions above noted are satisfied—first, that Registrars should possess reliable information regarding the financial position of societies, and secondly, that the outside public should have confidence in the control and audit—it is an advantage that the number of Government officials employed should be as small as possible, and every effort has been made to reduce to the lowest figure the agency directly employed by Government.

29 But while the movement must be essentially a popular one, and while excessive official supervision must be avoided, it by no means follows that Government officials outside the circle of those directly connected with co-operation should hold aloof. It is true that the details of initiation and inspection should be left to the expert agency provided for the purpose, and it is no part of the duty of the district officer to intervene in the internal administration of societies. But as co-operative societies are no longer isolated experiments outside the sphere of district work, and as, beyond the material benefits which they offer, they represent an influence closely connected with the welfare of the people and powerful, now and in the future, for good or evil, the district officer cannot dissociate himself from the movement. On the contrary, a know-

ledge of co operative principles and practice has now become essential as a knowledge of revenue law and it is his duty to maintain the closest touch with societies, not allowing them to languish through want of sympathy or to develop on undesirable lines through want of vigilance. Without in any way becoming active propagandist he should, personally and not through subordinates, make himself acquainted with the progress of the movement in his district, encouraging and helping those who have formed themselves into societies, enlisting the interest and support of men of influence and wealth, and assisting with advice those who seek to avail themselves of the benefits of co-operation. This in no way involves the officialising of co-operation nor does it trench upon the essential principle that the movement if it is to succeed, must be a popular one. Rather will it gain strength by such encouragement and guidance while the more closely the district officer is in touch with societies the more sure will he find to his hand new and valuable agencies to help him in his daily work.

It is for Local Governments to consider to what extent and in what manner use can be made of societies in each province in district administration—how far they can afford a means of ascertaining the real public feeling of the district—how far they can by rendering voluntary aid assist in promoting primary education, rural sanitation and medical relief—in what manner they can be used in times of scarcity and famine or during the prevalence of epidemics, or whether the training afforded by them will lead to the development of a true system of village government.

In these and other ways it may be found possible to utilize the co-operative organisation, and the movement should, if wisely directed, exercise an important influence in promoting the welfare of the people. But although it is still uncertain to what extent, and in what manner, societies may assist in the work of the district, there can be no doubt that a new factor in administration, which cannot be disregarded, has come into being and that new duties and responsibilities have been thrown upon the district officer.

30 Co-operation in India owes much to the devoted efforts of the many officials who have spent much time and thought on the furtherance of the movement, and a special obligation is due to the admirable body of Registrars who in the various provinces have guided the societies through their earlier stages. They have as a rule been picked men. Several of them had prepared themselves for their duties by a special study of co-operation in Europe and as a body they have applied themselves to their task with splendid energy and equally splendid patience. They have not only effected much by their own efforts, but they have succeeded in eliciting enthusiastic assistance from others, and the movement owes much to the great body of non-official workers who have so ably seconded the efforts of Registrars. Gentlemen of all shades of opinion and creed have come forward to assist not only by making more general a knowledge of the principles of co-operation and of its benefits but also by initiating new societies and by giving unremitting attention to those of which they are themselves members. Help of all kinds has come from every quarter—from commercial firms, from great bankers, from planters, from zamindars, from ryots, from pleaders from retired Government servants—both European and Indian—from missionary bodies of all denominations, from the Salvation Army and from numerous other classes and associations. The interest which has been aroused in so many quarters, and the zeal which has been shown have added to the strength of the movement, and have been a source of the greatest encouragement to Government and its officers in the initiation of this important experiment. On some few of the unofficial workers Government has been able to bestow special marks of its appreciation, but there are many whose work has not and cannot receive tangible recognition, and who indeed have toiled with a strenuous modesty which looks for no reward beyond the consciousness of having served the best interests of their country. To these, equally with the others, Government, which has these same interests at heart, extends its sincere acknowledgments and thanks.

31. The remarkable progress which has been made during the first ten years could not have been fore-
 Summary seen by the most sanguine believer in co-operation. From small beginnings the movement, fostered by the resourceful guidance of Registrars and assisted by a body of non-official workers, has grown rapidly until it now represents an influence vitally affecting a large section of the people. The development which has taken place is all the more striking when it is remembered that excessive State aid has been avoided; and that the aim kept steadily in view has been, not the rapid multiplication of societies, but the restriction of the movement within safe bounds. The policy of restricting State aid within narrow limits has been fully vindicated and has led to an increase of self-reliance and independence, while the caution with which Government has stimulated development has resulted in a natural and healthy growth. The future is full of promise, and although under the influence of federation, and with increased unofficial aid and supervision more rapid progress may be expected, the caution and restraint shown in the past should continue.

Co-operation has brought with it a wide circle of benefits, both moral and material, and these benefits are intended primarily and mainly, but by no means exclusively, for the poorer agricultural classes. They are not however confined to societies of any particular type, and a marked feature of the Indian system is its elasticity. So long as the members of the rural society are in touch with one another and have a unity of interest, so long as the principle of unlimited liability is maintained as a leading feature, and so long as precautions are taken to prevent undue importance being attached to the profits of members, there is no necessity to adhere slavishly to any particular type. In the detailed administration of credit societies, there are certain maxims which, subject to the reservations specified in this Resolution, may be said to represent the teachings of our experience and some of these are :—

- (a) that mortgages as a security for debt, though ordinarily discouraged, are not without their uses in certain cases ;

- (b) that the early clearance of a member from previous debts after his admission to a society is desirable
- (c) that it is unnecessary to confine the grant of loans to those required for productive purposes
- (7) that while it is desirable that Government should remove certain technical obstacles in the way of co operation it would be unwise to grant exceptional concessions as this would remove from the societies the incentive to self-help
- (e) that while it is impossible to lay down any general rule regarding the comparative importance of the different sources from which the funds of societies are derived, it is essential that the bulk of these funds should be in a form easily realisable
- (f) that the greatest importance should be attached to the punctual repayments of loans and
- (g) while there may be advantages in the earlier stages in using the reserve as part of the working capital of the society it should gradually as it becomes more important be set apart for separate investment

As societies increase it has been found necessary to federate them under central banks or corresponding organizations. In some provinces these have again been brought under a Provincial Bank and the establishment of such banks in all the major provinces is probably only a matter of time. These central institutions bring individual societies into touch with the general money market and serve as distributing centres for their balances. Their management presents special difficulties and if co operation is to be secured against catastrophe this portion of the organization will require particular attention. It is necessary for similar reasons to insist on adequate inspection and audit of individual societies and Government while anxious to secure as much autonomy as possible for the movement cannot dissociate itself from the task of securing at all times both on financial and on social grounds an efficient degree of supervision. Finally although district officers need not concern themselves with the details of initiation and inspection they must recognize that a

new factor in district administration has come into being, that new duties and new responsibilities have been thrown upon them, and that the movement, if wisely directed, may form yet another link which binds together Government and the people
